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Canada's Growing Economic Relations *with the* United States

Part 2 — Maximizing Our Opportunities

Foreword

This is the second part of a three-part illustrative overview of Canada's strong and increasing economic relations with the U.S.

"Part 1 — What are the key dimensions?" was published in the Second Quarter 1999 issue of the Micro-Economic Monitor, and provided a snapshot of Canada's economic relations with the U.S. — highlighting their many dimensions and key trends. It examined their increasing strength, and paid particular attention to the changing nature of our exports to the U.S.

In this issue, we present "Part 2 — Maximizing Our Opportunities", which explores how we might better take advantage of economic opportunities in the U.S. It discusses many benefits of our growing economic relations, and identifies current export opportunities.

In next issue's "Part 3: Turning Challenges into Strengths", the key challenges in pursuit of these opportunities will be identified, as well as possible ways these challenges might be turned into advantages.

Especially at a time of rapid globalization, the information revolution and the transition by all countries towards more knowledge-based activities, it is key that Canada seize opportunities associated with our growing economic relations, especially in more value-added and knowledge-intensive activities that will be critically-important to Canada's future prosperity and standard of living.

Our growing economic relations with the U.S. ...

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As the 21st century dawns, our increasing economic relations with the U.S. are pivotal!

This is not only to take better advantage of attractive cross-border opportunities, but to be in an improved position to exploit new and emerging opportunities of a global nature.

As a result of globalization and the information revolution, Canadian business must be continuously prepared to undertake promising new areas of economic activity that depend on large market access. And the U.S. is key — the U.S. is the largest, richest, most dynamic and technologically-advanced market, with an abundance of opportunities.

In this feature, we will identify the key benefits to our close economic relations with the U.S. and pay particular attention to those opportunities which we must take advantage of, to better position ourselves for the future.

...provides us with many opportunities — <u>if we are ready</u>!

But we must be ready.

- **Globalization, the information revolution and the transition towards knowledge-based activities make the dynamic advantages of economies of scale and specialization much more possible.**

- **They also create new "essentials" for successful business — redefining old notions of competitive advantage.**

This does not negate the important comparative advantages afforded by our natural resources, but gives greater prominence to inventiveness, productivity, quickness and the general ability to take advantage of opportunities, especially in more value-added and knowledge-intensive activities.

Canada will need to build on current comparative advantages, and develop new ones appropriate to a world where knowledge and innovation are increasingly key — and <u>seizing opportunities in the U.S. will be</u> instrumental to this end.

What are the key benefits?

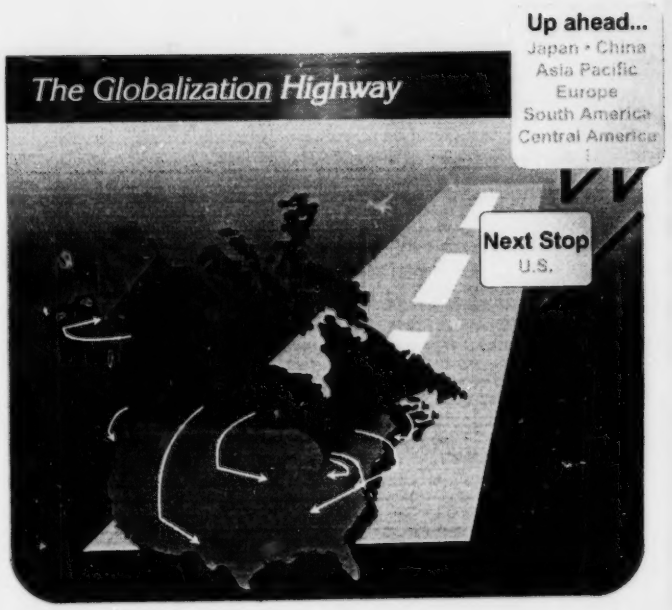
For the outward-oriented, the U.S. is an obvious first-stop

The U.S. market has always been important to Canada, and will likely remain so.

For firms interested in expanding beyond the domestic border, success often comes from focusing on one foreign market at a time.

- **The U.S. is close and while very competitive, it offers a relatively easy market to <u>begin</u> going global — a key first-stop.**

- **This is especially true for Canadian firms who are approaching exports as "first-evers" and "new-to-market".**



The U.S. offers a rich market...

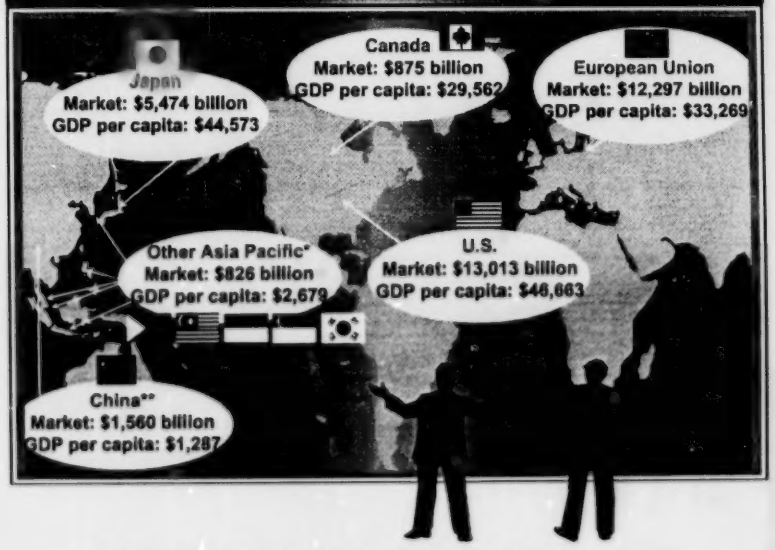
The U.S. is the world's richest market.

- **It has a marketplace of $13 trillion.**
- **Average per capita income is over $46,000.**

Affluent markets can be especially important for many value-added products and services, and provide many opportunities to move up into higher-knowledge activities.

As the world's largest and richest consumer market, the U.S. should be seen as a priority export target.

The large and rich U.S. market, 1998

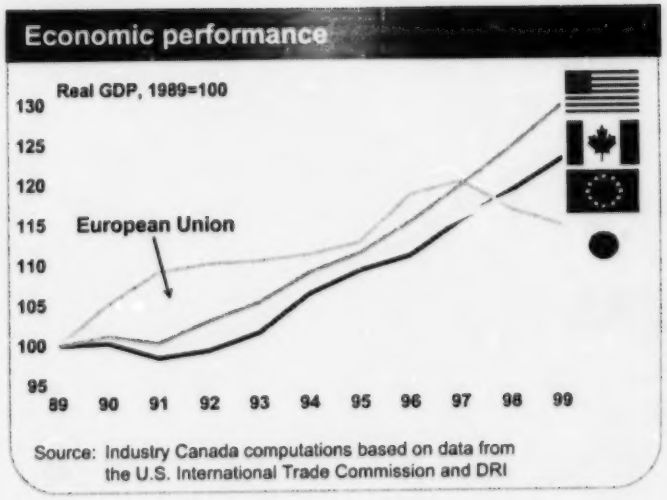


* Indonesia, Malaysia, Philippines, Singapore, South Korea
** Includes Hong Kong (Market: $262 billion; and GDP per capita $37,982)
Note: Market is defined as domestic output plus imports minus exports. All values converted to Canadian dollars using 1998 market exchange rate.
Source: International Monetary Fund

...that is fast-growing...

The U.S. economy has had the best performance of all G-7 countries over the past 10 years.

- **Indeed, Canadian exports have benefitted substantially from the U.S.'s current economic expansion.***



* See "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions? ". The Micro-Economic Monitor (2nd Quarter 1999).

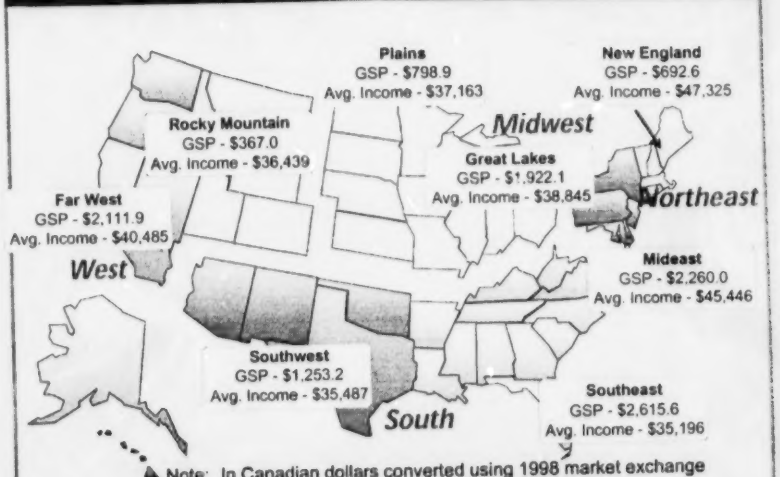
...and exceptionally diverse

The U.S. market is not only huge, but quite diversified — with many regional economies.

- **Over the past 20 years there has been continual change in the list of stronger and weaker geographic performers.**

Canada can diversify within the U.S. — by expanding our trade relations and interests more thoroughly throughout the U.S.

The U.S. is a large and varied market, 1998



Note: In Canadian dollars converted using 1998 market exchange rate. Gross State Product (GSP) in $ Billion

Annual growth of Gross State Product, rank and %

	Regions	Rank	77-79	Rank	80-84	Rank	85-89	90-94	Rank	95-97
Northeast	**New England**		**3.2**	1st	**4.0**	1st	**4.9**	**0.9**		**3.8**
	Mideast		**2.2**		**2.4**		**3.6**	**1.0**		**2.4**
Midwest	**Great Lakes**		**1.5**		**1.4**		**2.3**	**3.0**		**2.8**
	Plains		**3.0**		**1.8**		**1.9**	**3.0**		**3.6**
South	**Southeast**		**4.1**		**2.9**		**3.4**	**3.3**		**3.3**
	Southwest		**4.4**	2nd	**3.6**		**1.0**	2nd **4.1**	1st	**4.9**
West	**Rocky Mtn**	1st	**5.3**		**2.4**		**0.7**	1st **5.0**	2nd	**4.9**
	Far West	2nd	**4.6**		**3.0**	2nd	**4.8**	**0.5**		**4.0**
	U.S.		3.2		2.6		3.2	2.3		3.4

Rank: 1st 2nd

Source: Statistics Canada and U.S. Dept. of Commerce

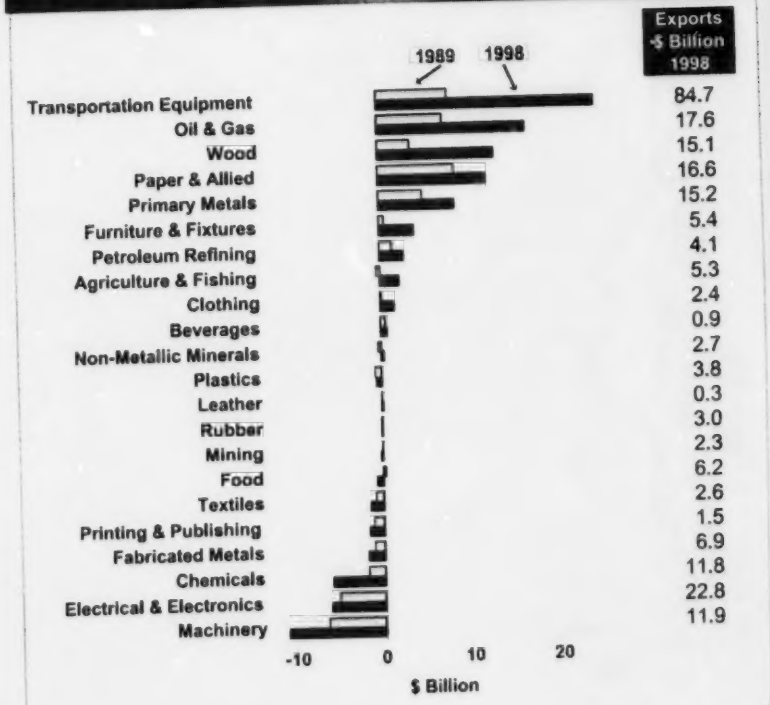
And while our U.S. economic relations benefit export specialization...

Canada's U.S. economic relations have contributed to growing trade balances in resource-based exports and in transportation equipment (mainly autos).

- **These are sectors that have traditionally produced surpluses but are now running increasingly large surpluses. This deepening of trade balances is consistent with increased specialization in areas where Canada has a comparative advantage.**

Canada's net trade flows with the U.S. are increasingly positive in resource-based industries in which Canadian exports have comparative advantage and are already strong.

Trade balances with the U.S.



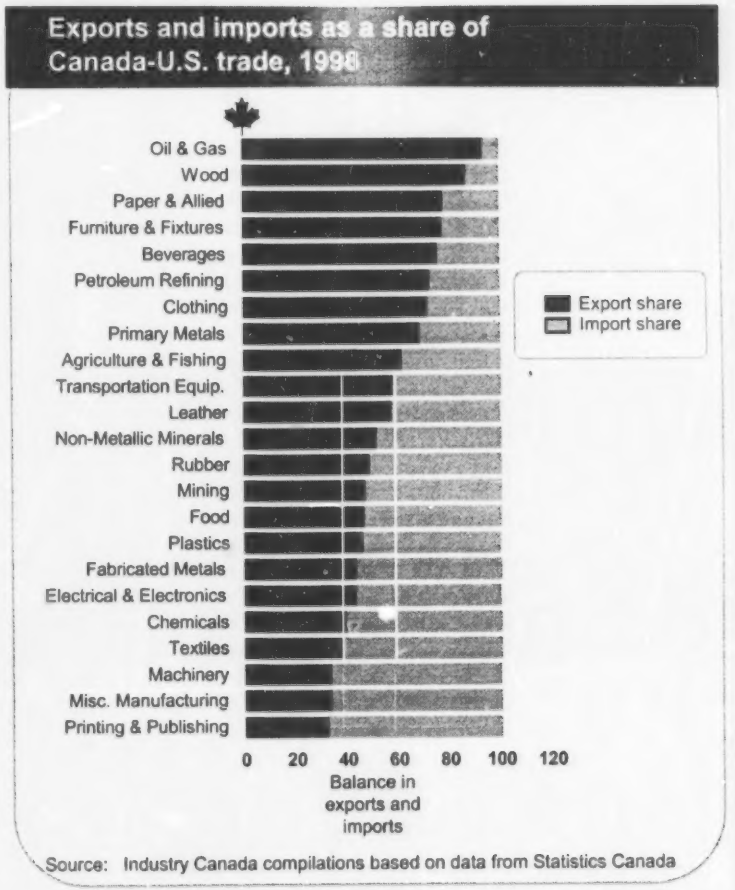
Source: Industry Canada compilations based on data from Statistics Canada

...they also permit our industries and firms to specialize in the export of differentiated products...

As our economies become more linked, there is, within many industries, considerable and growing trade in both directions.*

- **Indeed, in many industries, there is almost a balance in exports and imports.**

- **This is suggestive of product differentiation and specialization, and of highly integrated markets.**



* As shown in detail in "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions?", The Micro-Economic Monitor (2nd Quarter 1999).

...sometimes involving more value-added activities

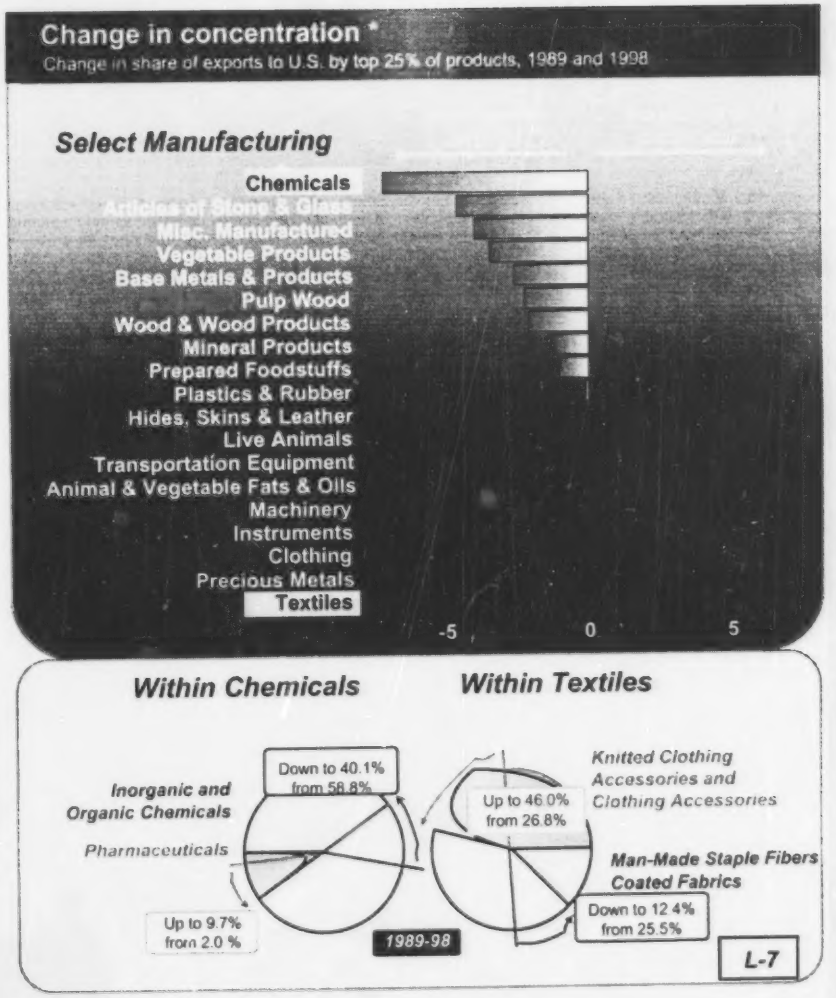
Many sectors are seeing an increase in the export share of more processed items. In sectors where such exports are small, we see export diversification occurring. In industries where such exports are relatively large, we see an increase in export concentration in these activities.

- **Within the Chemicals sector, exports from the Pharmaceutical industry are growing in importance.**

- **Within Textiles, the export share of more complete clothing accessories is rising.**

Value-added activities include work involving further and/or more advanced processing and sometimes more knowledge-based endeavours.

Industry sub-components that are expanding fastest are often those requiring further processing or more knowledge-based activity, e.g. Pharmaceuticals.



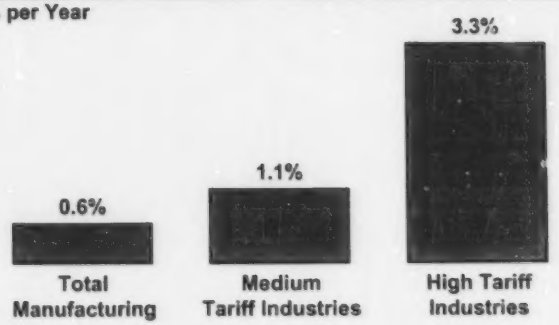
Access to a larger market helps us become more productive...

Recent research shows that industries which experienced large tariff reductions following the FTA, also showed the biggest productivity improvements.

Not only were many of these industries able to withstand a drop in tariff protection, they were also able to find viable and valuable niches in the larger and now more accessible U.S. market.

The FTA and subsequently the NAFTA have had an important and positive impact on the level of Canada - U.S. trade, but as well on helping Canadian industries become more productive.

Impact of FTA on manufacturing productivity growth



Select list of formerly "high-tariff" industries

Brewery Products	Paint & Varnish
Clothing Industries	Wooden Kitchen Cabinets
Men's & Boy's	Wine
Women's	Household Textile Products
Children's	Footwear
Upholstered Furniture	Milk
Wooden Household Furniture	Business Form Printing
Other Household Furniture	Sugar & Chocolate
Metal & Other Office Furniture	Asphalt Roofing
Soap & Cleaning Compounds	Printing Ink
Coffins & Caskets	Gloves
Wooden Doors & Windows	Furs
Shipbuilding & Repair	Carpets, Mats & Rugs
Plastic Bags	

Note: "Medium Tariff " refers to industries with net effective tariff cuts between 4 and 8% and "High Tariff " refers to industries with net effective tariff cuts > 8%. "net effective tariff cut" refers the relative change of the Canadian tariff against the U.S. to the rest of the world between 1988 and 1996.

Source: Trefler, D. "The Long and Short of the Canada-U.S. Free Trade Agreement", 1999

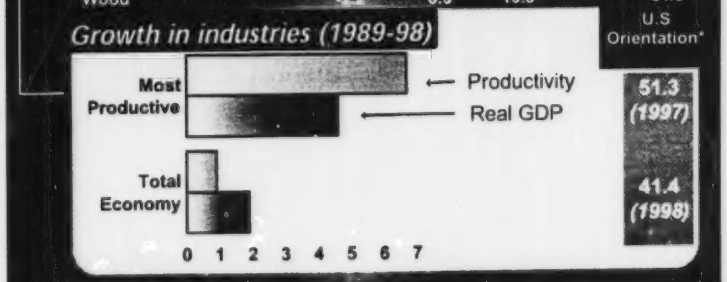
...and faster growing

Many of our industries that are increasing fastest in productivity are among our most U.S. market-oriented.

These industries have been contributing significantly to our recent growth.

Canadian productivity, exports and U.S. orientation

	Growth in: 1989-98 Productivity	Real GDP	Exports to U.S.	U.S Orientation* 1997
Rubber	11.1	6.3	12.7	63.7
Refined Petroleum	7.4	2.4	6.9	27.5
Primary Textiles	6.5	2.6	22.4	36.9
Electrical & Electronics	5.9	4.9	15.4	69.3
			13.2**	87.5**
			16.8	59.2
Primary Metals	4.6	1.4	7.3	52.9
Furniture & Fixtures	4.1	3.8	18.4	69.6
Paper	2.8	0.8	5.7	49.3
Beverages	2.6	1.1	5.3	11.2
Transportation Equip.	2.3	3.9	9.7	73.6
				59.5
Chemicals	2.3	2.6	13.1	37.9
			32.8	
Food	2.2	2.3	10.2	10.5
Machinery	1.4	1.9	12.4	55.4
Plastics	0.9	3.9	17.8	33.0
Textile Products	0.7	-0.5	16.5	19.4
Fabricated Metals	0.3	1.5	13.9	25.4
Clothing	-0.2	-1.0	26.0	28.0
Non-Metallic Minerals	-0.5	-0.9	12.1	30.8
Leather	-0.7	-5.6	11.1	35.7
Misc. Manufacturing	-0.7	1.8	15.8	60.9
Printing & Publishing	-2.1	-2.4	13.1	8.3
Wood	-2.2	0.3	13.9	51.0



* Calculated as (total exports/shipments)*100. GDP replaces shipments for total economy.

** The export data for computers does not include re-exports.

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

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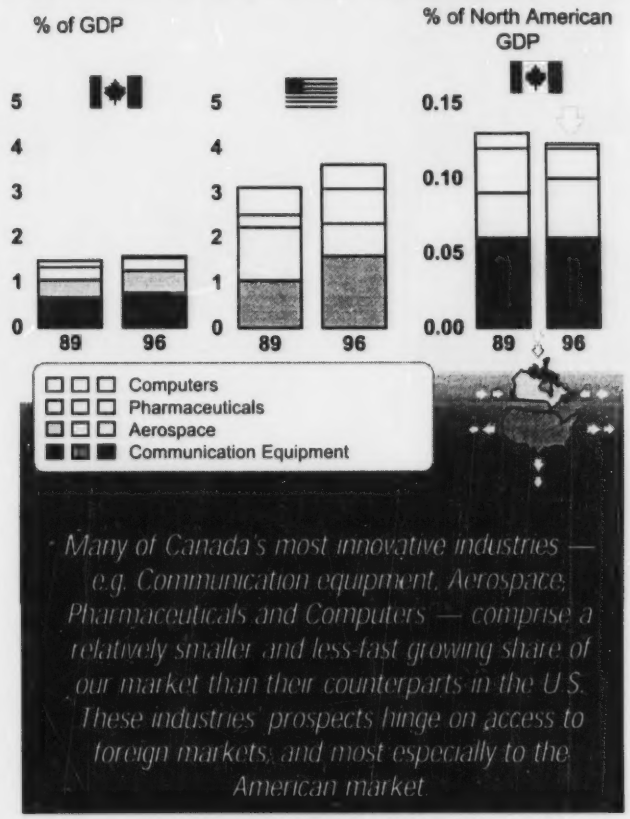
Large markets help industries become more innovative...

The costs of innovation are high.

Without a huge market to sell into, the cost of conceiving, developing and commercializing new products, implementing new techniques, and investing in human capital may be difficult to justify.

It is no coincidence that many of Canada's innovative industries are becoming increasingly outward-oriented, e.g. Communication Equipment, Aerospace, Pharmaceuticals and Computers.

Select innovative industries



Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

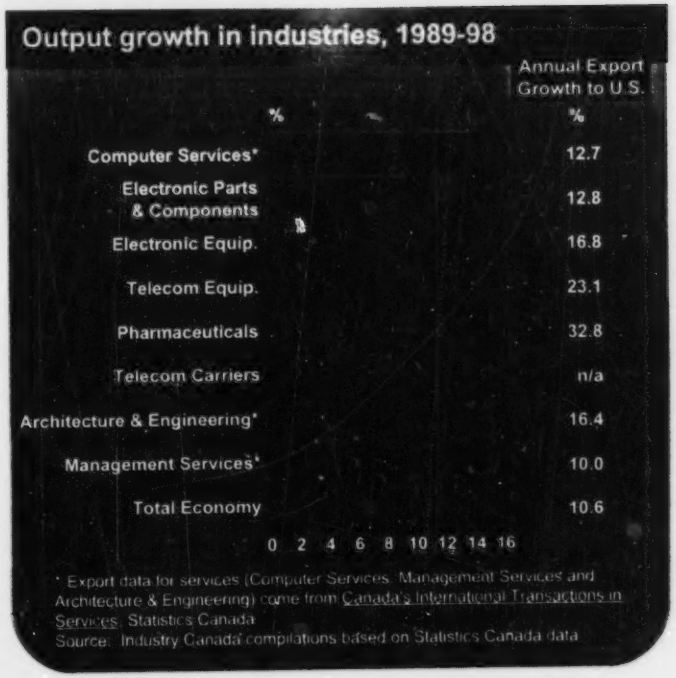
...and to engage in more new or emerging industries / activities

Access to the U.S.'s larger market makes it financially feasible for new firms to participate in promising value-added and knowledge-intensive industries.

Many of these industries are just beginning to emerge.

- **And insomuch as these activities are at the cutting-edge and often provide productivity-enhancing goods and services to other industries, they provide the impetus for further innovation and the improved competitiveness of other sectors.**

Access to the U.S. market is extremely important for many firms in fast-growing emerging industries — the promise of these new areas of economic activity depend on firms' abilities to quickly take advantage of large markets and cover start-up and innovation costs.



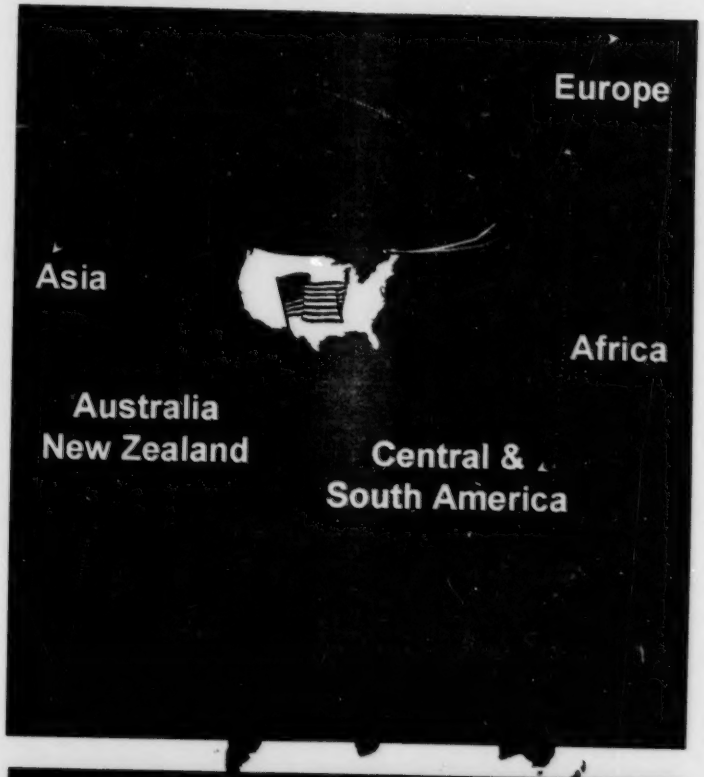
In recent years, we have seen a proliferation of new firms in emerging industries such as information and communications hardware and software, biopharmaceuticals as well as in a host of other areas from bio-agriculture, bio-aquaculture, bioforestry to environmental technologies, telehealth and aerospace.

Success in the U.S. can also be a springboard to other markets

The U.S. also serves as an ideal gateway to global markets, especially in more value-added and knowledge-intensive areas.

- **The U.S. market is the easiest for many Canadian businesses to enter, and to learn the process of exporting, before going more global.**

- **Plus, since the U.S. is the world's vanguard market for many new products and services, success in the U.S. will establish Canada's brand and position Canadian business for success elsewhere.**



A successful foothold in U.S. markets helps establish a favourable reputation before going further abroad. For instance, 65% of Canadian exporters serving non-U.S. markets in 1997 also exported to the U.S.

Source: Statistics Canada, Export Registry, 2000

In addition, economic integration is a two-way street...

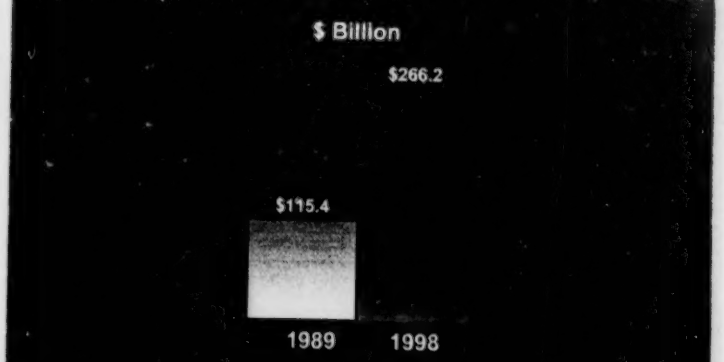
Our relations benefit U.S. producers too!

Canadian imports from the U.S., in nominal terms have doubled; and as a percent of U.S. output, have risen from 1.8% in 1989 to 2.1% in 1998.

We are also the most important market for U.S. exporters in a number of major industries. E.g.:

- **Autos**
- **Computers**
- **Electrical & Electronics**
- **Chemicals**
- **Pharmaceuticals**

Canadian imports from the U.S.



Canada is the top foreign market for many U.S. exports

	Canadian Imports from the U.S.			
	Value, 1998 $ Billion	% of U.S. GDP, 1997	Share of U.S. Exports	U.S. Rank as Exporter to Canada
Autos	51.7	10.7	56.1	1st
Computers*	6.7	9.7	16.5	1st
Electrical & Electronics	28.8	5.4	18.6	1st
Chemicals	17.7	3.0	19.8	1st
Pharmaceuticals*	2.4	1.8	13.8	1st
Total Economy	266.2	2.1**	26.3	1st

* GDP data are from the 1996 Annual Manufacturing Survey of the U.S. Census Bureau

** 1998

Source: Industry Canada compilations based on data from Statistics Canada, U.S. Dept. of Commerce and U.S. Census Bureau

...and be sure, the U.S. is pursuing opportunities in Canada

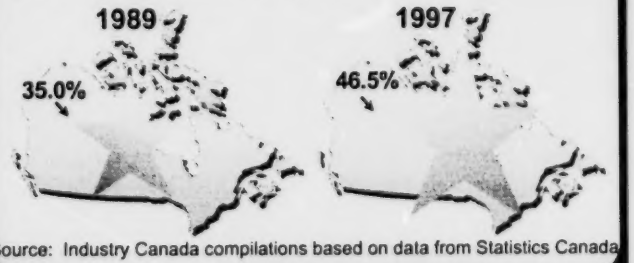
U.S. firms are not waiting to take advantage of opportunities when they see them in Canada.

The U.S. share of imports in Canadian markets is high and increasing in many industries.

It becomes crucial that Canadian firms strengthen their base by also seeking opportunities in U.S. markets.

U.S. export penetration is rising in many key Canadian markets — and especially in many high-tech, high-knowledge industries.

U.S.'s share of Canada's market



Source: Industry Canada compilations based on data from Statistics Canada

Canadian imports from the U.S.

	Share of Canadian Market 1989	1997	Percent Change 1989-97
	%	%	%
Resources			
Agriculture*	25.4	39.6	55.6
Logging & Forestry*	4.7	6.1	30.7
Mining & Oil*	10.6	12.1	13.7
Manufacturing			
Food & Beverages	4.8	9.8	104.5
Rubber & Plastics	21.7	30.1	38.9
Textiles	14.4	34.4	138.6
Clothing	1.9	8.5	344.6
Wood	8.5	13.2	56.8
Furniture & Fixtures	13.1	29.9	127.8
Paper	11.6	25.2	118.4
Printing & Publishing	10.2	15.9	55.9
Metals	17.1	28.7	67.5
Machinery	46.9	54.6	16.4
Transportation Equipment	40.8	50.8	24.5
Electrical & Electronics	34.6	49.9	44.3
Computers	58.7	62.7	6.9
Non-Metallic Minerals	12.9	22.4	73.2
Refined Petroleum	5.9	8.4	43.4
Chemicals	19.0	36.8	93.8
Pharmaceuticals	8.6	22.7	162.2
Professional Services			
Computer Services*	9.7	10.9	12.0
Architecture & Engineering*	4.9	8.2	68.1
Transportation*	9.9	15.1	52.8

* GDP in place of shipments was used in market calculations. In addition, the relevant time period is 1992-1996 for Architecture & Engineering.

Source: Industry Canada compilations based on data from Statistics Canada

Opportunities for the taking?

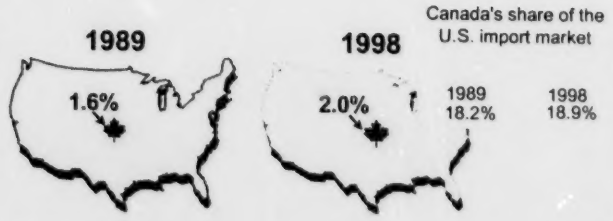
Still room to grow!

It is important to note that even though Canadian exports to the U.S. have grown significantly since 1989, there are still considerable opportunities.

Canada's export share of the U.S. market remains small — 2% in 1998.

This was also shown in "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions? ", The Micro-Economic Monitor (2nd Quarter 1999).

Canada's share of the U.S. market



Source: IMF and DRI

Select industries	Canadian exports' Share of U.S. market 1989 %	1998 %	1998 Value	Annual growth 1989-98 in: Exports %	Exports Net increase	U.S. market %	U.S. market Net increase
Electrical & electronics	1.9	2.5	$13.3	11	$8.2	8	$271.7
Plastics	1.6	4.7	$2.8	15	$2.0	2	$9.9
Machinery	1.9	2.8	$8.3	10	$4.8	5	$110.3
Transportation equip.	7.9	10.4	$54.9	7	$25.0	4	$149.8

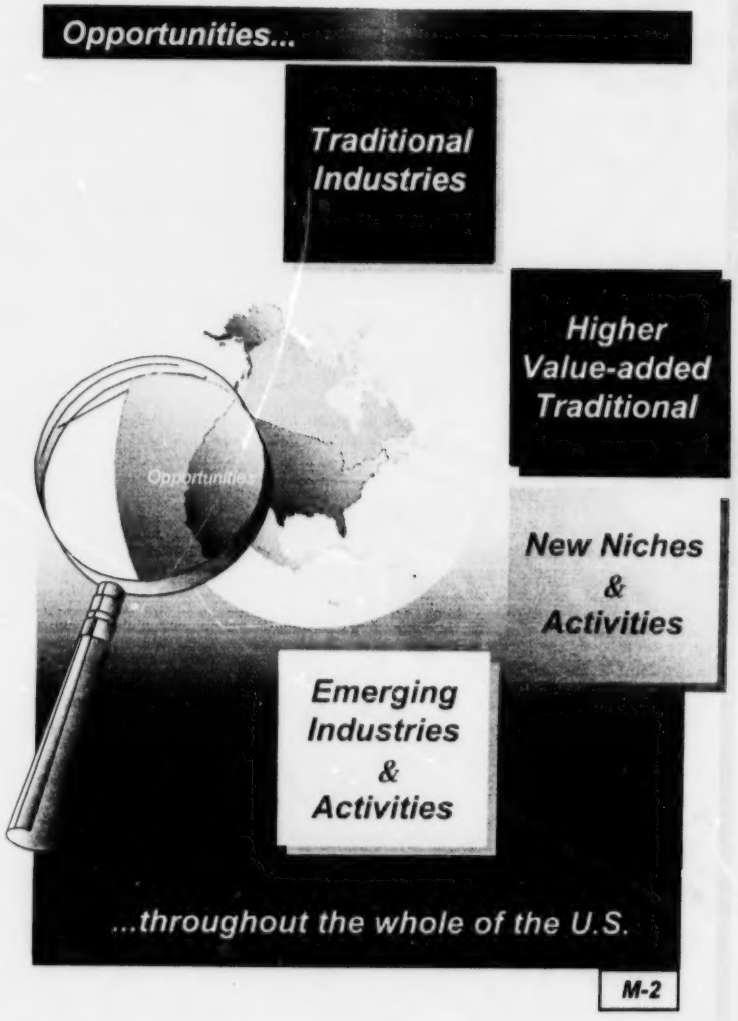
Note: Billions of U.S. dollars
Source: Industry Canada computations based on data from the U.S. International Trade Commission and DRI

What kind of opportunities?

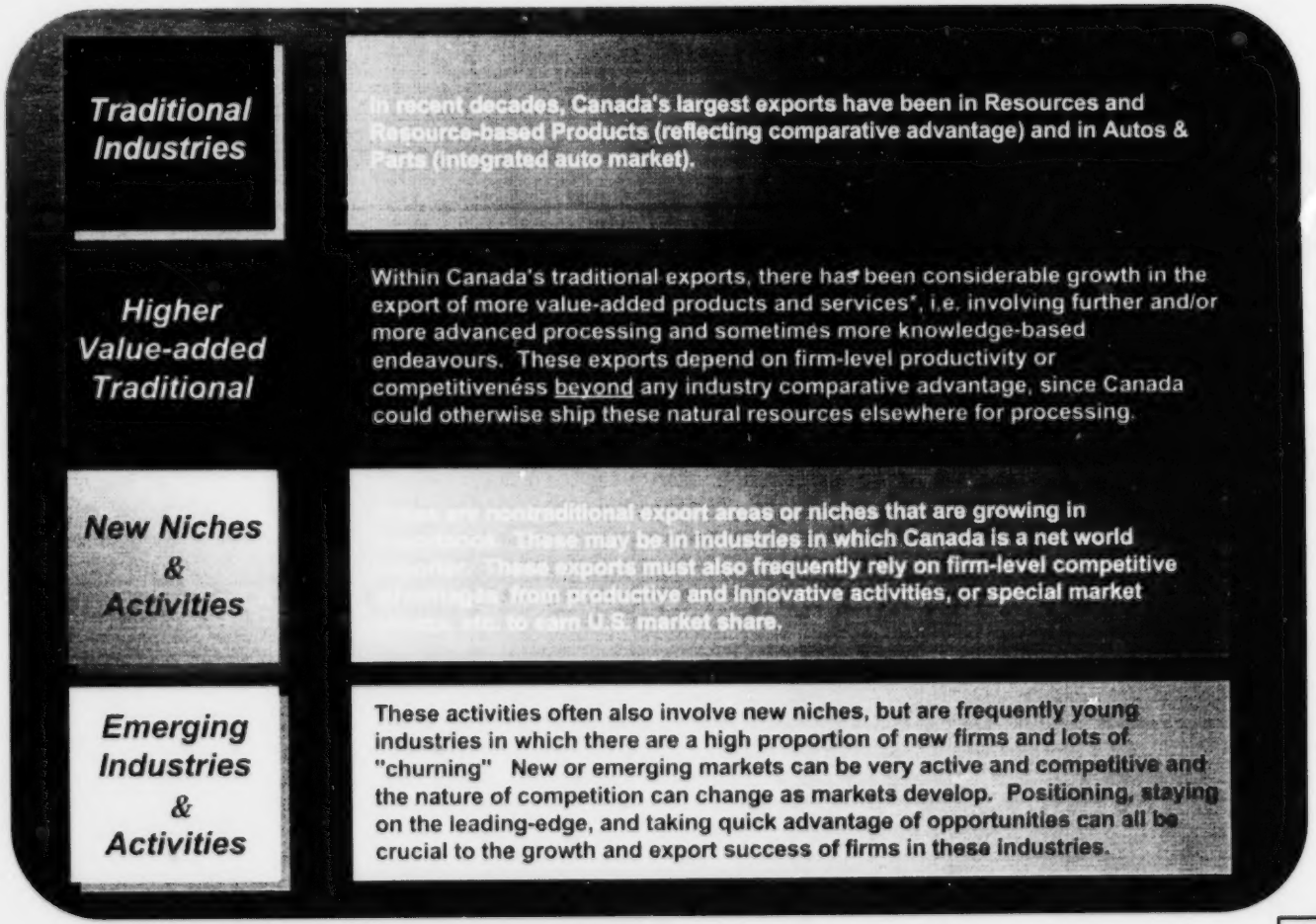
Every kind! Encompassing all types of products and services. There are still abundant opportunities in:

- **traditional export products and services**
- **new value added areas built on traditional strengths**
- **product/service niches**
- **new and emerging areas.**

Canada's export opportunities include but are not limited to resources and resource-based products. Indeed, taking fuller advantage of opportunities means expanding Canada's exports to a wider range of activities, including products and services that could be particularly important for our future prosperity, as well as broadening our export markets throughout the whole of the U.S.



...from traditional exports to exports in new emerging areas


Traditional Industries
In recent decades, Canada's largest exports have been in Resources and Resource-based Products (reflecting comparative advantage) and in Autos & Parts (integrated auto market).
Higher Value-added Traditional
Within Canada's traditional exports, there has been considerable growth in the export of more value-added products and services*, i.e. involving further and/or more advanced processing and sometimes more knowledge-based endeavours. These exports depend on firm-level productivity or competitivenéss beyond any industry comparative advantage, since Canada could otherwise ship these natural resources elsewhere for processing.
New Niches & Activities
Emerging Industries & Activities
These activities often also involve new niches, but are frequently young industries in which there are a high proportion of new firms and lots of "churning" New or emerging markets can be very active and competitive and the nature of competition can change as markets develop. Positioning, staying on the leading-edge, and taking quick advantage of opportunities can all be crucial to the growth and export success of firms in these industries.

* Some of Canada's natural resource exports are very high value-added. But often there can be further processing that uses additional domestic inputs (sometimes requiring higher knowledge or skill activities) and adds further value.

There is still considerable room to grow in traditional export areas...

Even though Canadian traditional exports are large relative to other exports, and have generally grown faster than the U.S. market, our market share here, too, remains small.

As transportation links develop further, and our knowledge of U.S. markets grows, Canada's exports should broaden more thoroughly throughout the U.S.

Even in traditional exports, the U.S. provides abundant opportunities and remains a highly attractive target for further exports .

Traditional Canadian exports to the U.S.

	Annual Growth in Exports 1989-98	Growth in U.S. Market 1991-97	Share of U.S. Market 1997
	%	%	%
Resources*	10.0	8.1	6.8
Resource-Based**	8.6	8.1	4.6
Autos	10.2	11.9	8.8
Auto Parts	6.9	n/a	n/a

* Resources are defined as Oil & Gas, Mining, Agriculture, Fishing & Trapping, and Logging.

** Resource-based is defined as Paper, Primary Metals, Wood, Food, Petroleum & Coal Products, Non-Metallic Minerals, Beverages, Leather and Tobacco

Note: The U.S market for resources is calculated using GDP instead of shipments

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

Canada's traditionally large exports include Resources and Resource-based Products (comparative advantage) and Autos & Parts (integrated auto market).

...especially if we can add value to our traditional exports

The fastest growing segments in Canada's resource-based exports are in more processed endeavours.

- **Our market share in these endeavours is much smaller, while these U.S. markets tend to be large and growing quickly.**

In an era of global commodities, exports of primary and basic products alone may no longer provide sustainable prosperity. Technology allows new producers of basic goods to come forward even from overseas, putting yet our traditional exports in a more vulnerable position.

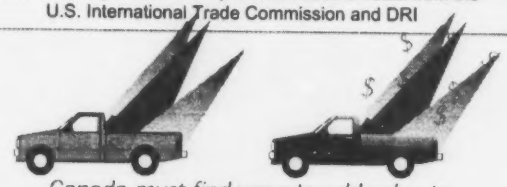
A challenge facing Canada is to devise new ways to draw upon the strengths of our existing industry, and to enhance their strongest elements, i.e. in value-added ways.

Canadian exports to the U.S.
Primary and select related products involving further processing

	Exports		U.S. Market		
	US$ Billion 1998	Annual Growth, % 1989-1998	US$ Billion 1999	Annual Growth, % 1989-1999	Our Share of U.S. Market 1998
Agriculture	3.1	11.9	156.2	2.0	2.0
Food & Beverages	5.6	13.4	490.1	4.1	1.1
» *Canned/Frozen Fruit/Veg*	0.6	20.2	56.8	3.6	1.0
» *Dairy Products*	0.1	19.3	19.3	5.4	0.4
» *Sugar & Confectionery*	0.5	16.6	26.9	3.0	1.8
» *Soft Drinks*	0.2	31.6	49.2	5.0	0.5
Wood & Paper	20.8	5.5	300.2	3.5	7.1
Sawmills	6.3	9.6	42.1	5.6	15.0
Veneer & Plywood	0.8	11.4	10.1	3.9	7.8
Paper Boxes & Bags	0.4	3.0	45.0	3.5	1.0
Mining & Oil Well Industries	12.3	8.1	112.5	0.9	10.1
Fabricated Metals	4.1	9.0	224.1	1.8	1.8
» *Cutlery/Handtools & Hardware*	0.9	13.8	24.0	4.2	3.6
Oil & Gas	11.5	9.1	67.7	2.1	15.3
Plastics	2.8	14.3	52.1	1.5	4.1

Traditional value-added include products and services that involve further and/or more advanced processing and sometimes more knowledge-based endeavours. These exports reflect firm-level productivity or competitiveness beyond any industry comparative advantage.

* Please also see niches and emerging industries on next two slides.
Source: Industry Canada compilations based on data from the U.S. International Trade Commission and DRI



Canada must find ways to add value to traditional exports.

M-5

Nontraditional export niches hold considerable promise...

We are witnessing a world of dynamic, fast-paced change, where firm-level competitive advantages can translate into niche market success.

Recent niches include:

- **Clothing**
- **Furniture & fixtures**
- **Rubber & Plastics**
- **Commercial services**

Canada's market share remains small, even in our most successful niches, so the future holds considerable promise.

Canadian exports to the U.S.
Select "niche" industries

	Exports		U.S. Market		
	US$ Billion 1998	Annual Growth, % 1989-1998	US$ Billion 1999	Annual Growth, % 1989-1999	Our Share of U.S. Market, % 1998 *
Clothing & Textiles	2.7	19.0	195.3	3.1	1.4
Furniture & Fixtures	3.7	13.8	71.5	5.0	5.3
Chemicals	4.2	4.3	144.5	1.8	1.6
Rubber & Plastics	7.1	13.0	225.2	3.9	3.2
Commercial Services	9.4	10.8	5,686.2	6.7	0.2

* It must be noted that some industries, such as clothing and textiles, still face to a degree certain quantitative restrictions and/or regulations which may limit the potential market in the U.S. which is available.

Source: Industry Canada compilations based on data from DRI and Statistics Canada (Transportation Services exports based on international services transactions receipts)

For further detail, please see Slide N-10.

Nontraditional export areas or niches include industry exports from areas in which Canada has been a net world importer. These exports' success relies frequently on competitive advantage originating from productive and innovative activities, and benefit from special market access to the U.S.

...as do exports in new and emerging areas

Technological developments have resulted in many new or evolving industries, whose markets are growing fast. At present, the U.S. market dominates world demand for many of these leading-edge products and services. Five key sectors include:

- **Biotech**
  - **Biopharmaceuticals**
  - **Bio-agriculture**
  - **Bio-aquaculture**
  - **Bioforestry**
- **Information Communication Technologies (ICTs)**
  - **Information appliances**
  - **Intelligent systems and software**
  - **E-commerce facilitators**
- **Aerospace Technologies**
  - **Regional and business aircraft**
  - **Flight simulators and training**
- **Environmental Technologies**
  - **Energy (fuel cells, biomass, etc.)**
  - **Bioremediation**
- **Professional Services**

Success of companies in these industries depends often on their ability to keep up with rapid innovations in products and/or processes.

Select Canadian exports to the U.S. associated with leading-edge activities

	Exports		U.S. Market		
	US$ Billion 1998	Annual Growth, % 1989-1998	US$ Billion 1999	Annual Growth, % 1989-1999	Our Share of U.S. Market, % 1998
Pharmaceuticals	0.7	29.4	133.6	10.4	0.5
ICTs					
Telecom Equipment	3.1	19.8	91.4	9.2	3.8
Electronic Parts & Components	3.2	9.3	171.8	11.2	2.1
Computers & Peripherals	3.6	10.1	170.5	9.9	2.3
Scientific & Professional Equip	1.6	15.7	133.6	3.8	1.3
Indicating & Recording Instrum.	1.6	15.0	24.4	5.1	7.1
Aerospace	4.5	10.8	79.5	1.2	5.2
Environmental Technologies*	0.4	19.0	n/a	n/a	n/a
Business & Professional Services	9.4	11.0	1,497	7.7	0.7
Management Consulting	0.7	11.8	148.4	8.5	0.5
Computer Services	0.7	13.3	301.6	12.9	0.3
Architecture & Engineering	0.6	16.2	116.8	4.6	0.5

* 1990-98 time period - export data come from Team Canada Inc.

Source: Industry Canada compilations based on data from U.S. International Trade Commission, DRI and Statistics Canada (Business & Professional Services exports are based on international services transactions receipts)

New or emerging activities frequently involve young industries in which there are a high proportion of new firms. Markets can be very active and the nature of competition can change as markets develop. Positioning, staying on the leading-edge, and taking advantage of opportunities quickly can be crucial to the growth and export success of firms in these industries.

Opportunities also include the export of many knowledge services

Knowledge services play a crucial part in the efficient operation and growth of modern economies.

Consequently, business & professional services are growing rapidly.

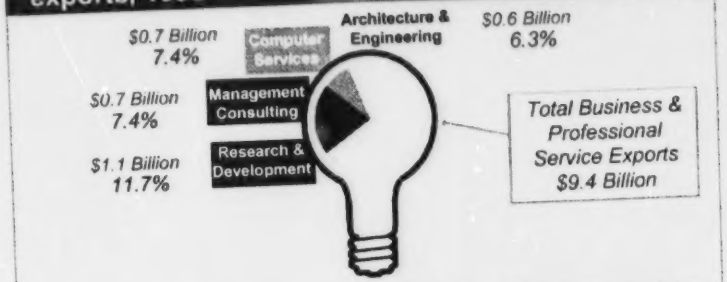
Business & Professional Services range from relatively low-tech building services to cutting-edge knowledge services. These include computer services, R&D, and Management Consulting.

Services are an integral part of the global, knowledge economy.

Select Canadian knowledge services exports to the U.S. ...

	Annual Export Growth, % 1989-98	U.S. Market US$ Billions 1998	U.S. Market Growth, % 1989-1998	Our Share of U.S. Market, % 1998
Business & Professional Services	11.0	1,391	7.7	0.7
Management Consulting	11.8	135.5	8.4	0.5
Computer Services	13.3	274.0	13.2	0.3
Architecture & Engineering	16.2	110.7	4.5	0.5
Research & Development	13.0	43.7	8.1	2.5

... as share of total business & professional service exports, 1998



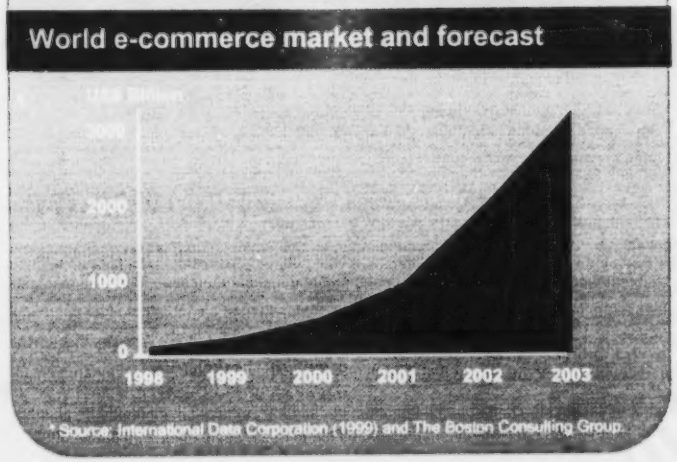
Source: Industry Canada compilations based on data from U.S. International Trade Commission, DRI and Statistics Canada (exports are based on international services transactions receipts)

E-biz could provide exceptional opportunities...

A significant feature of our new global and information-driven environment is the growth in e-commerce.

Canadian e-commerce is growing fast and is projected to continue to do so.

Although e-commerce is still in its infancy, we should see it accelerate dramatically in importance.



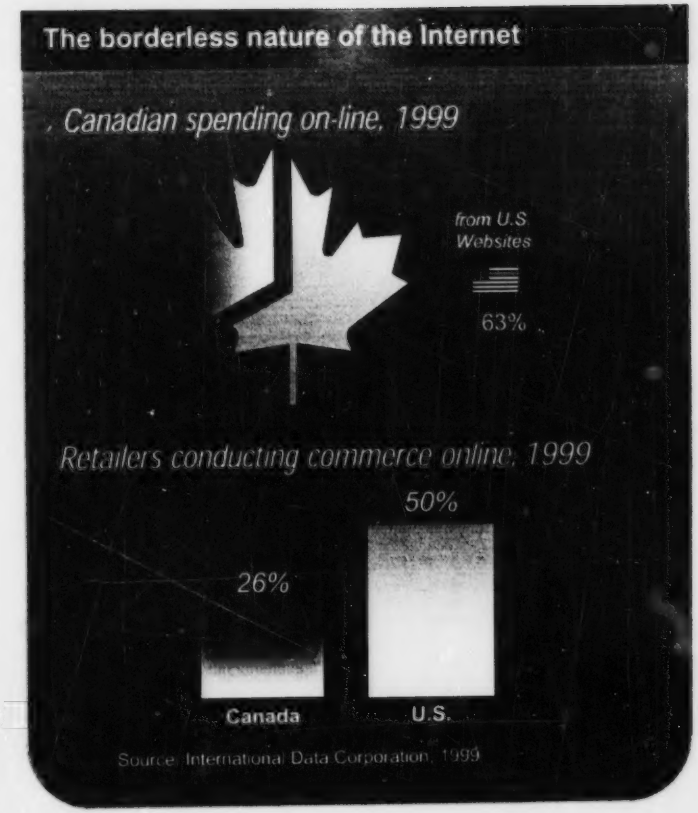
E-biz will impact on a substantial part of everyday activity, from retail to trading relationships.

...for Canadian business getting on the info-highway...

Canadians are spending a lot at American sites. Excluding financial transactions and travel-related online purchases, Canadian consumers spent 63% of their online dollars at U.S. Websites in 1999.

- **And only 26% of Canada's 200 largest retailers offered Web-based shopping last year, compared with about 50% of comparable retailers in the U.S.**

Getting on the Info-Highway — The Internet is becoming a strategic priority for a growing number of Canadian businesses.



...and signs are Canadian business is beginning to take advantage of e-commerce

While Canadian companies may have dragged their feet in e-commerce, partly because they felt the domestic market was not large enough to justify the expense, they are recognizing the U.S. market beckons.

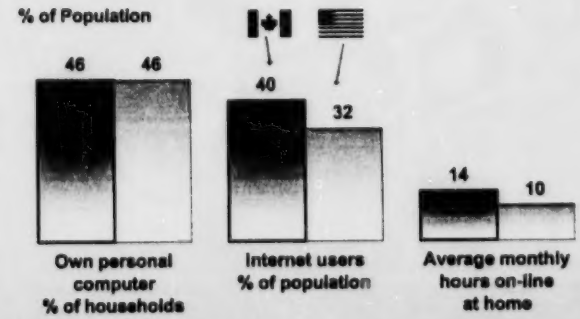
- **Indeed, almost half of the online shoppers who hit Canadian sites over the holiday period originated from the U.S. and another 5% from other countries.**

To take advantage of opportunities in e-commerce, Canada will need to accelerate the transformation of existing businesses and foster e-business creation and growth.

"In Canada a year ago, U.S. companies had 100% of the online book business, but today we believe Chapters has repatriated 40% of the money that has gone South."

Rick Segal, President of Chapters On-Line
Wall Street Journal, Jan. 31, 2000

Canadians are already on-line and potential users

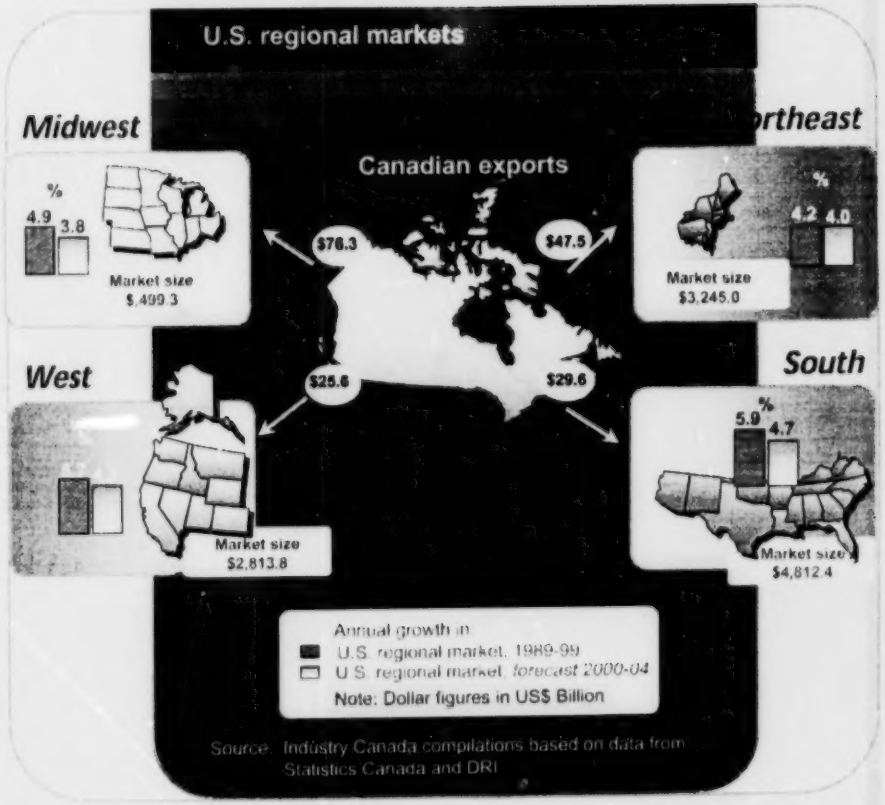


Online shoppers who hit Canadian sites over the holiday season

Source: IDC data as published by IBM and Retail Council of Canada, and The Boston Consulting Group

Opportunities can be found in all regions of the U.S.

Opportunities extend throughout the U.S., reflecting the growth and needs of individual regional markets.



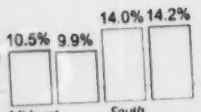
Please see: Annex: Opportunities and U.S. Regions for a fuller discussion of regional opportunities.

Our exports are strongest to the Midwest...

The Midwest is the largest U.S. destination of Canadian exports ($76.3 billion in 1998) — and are mostly in traditional areas of strength: especially Autos, but also Oil & Gas and Paper.

However, the <u>fast-growing</u> markets in the Midwest are in "high-knowledge" products and services.

- **This includes business services (especially computer processing and software), pharmaceuticals and computer equipment.**



Market size: $3,325.7 Billion
Canadian exports: $76.3 Billion

	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98
Top 5 exports		
Transportation Equipment	55.5	9.3
Oil & Gas	7.4	7.0
Paper	5.5	4.7
Primary Metals	5.0	9.2
Machinery	4.8	12.9

	Demand, 1999 US$ Billion	Average Annual Growth 1989-99	Forecast 2000-04
Fastest-growing markets			
Pharmaceuticals, Cleansers, Toiletries	43.4	7.4	6.0
Business & Prof. Services	347.1	7.6	5.9
Electronic Components	34.9	9.5	5.9
Computer/Office Equipment	36.8	9.7	5.4
Health Services	182.5	6.7	4.8
Largest "submarkets"			
Insurance Carriers & Agents	88.8	6.1	4.3
Motor Vehicles	71.7	4.5	3.1
Computer Processing & Software	67.2	12.7	7.7
Trucking & Courier Services	61.4	6.6	2.3
Motor Vehicle Parts & Accessories	54.8	2.7	3.5

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from <u>Group</u> data, and "submarket" information comes from <u>Sector</u> data. We focus on non-banking Groups and Sectors in which there is trade.

M-13

Source: Industry Canada compilations based on data from Statistics Canada and DRI

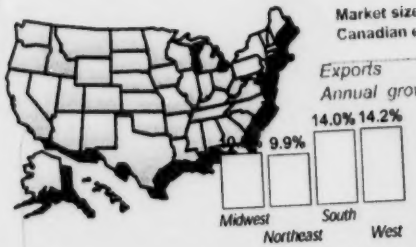
...and in the Northeast, high-tech exports have been increasing at a fast pace

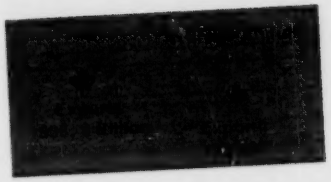
Autos also comprise the main share of Canada's exports to the Northeast, but exports of Electrical & Electronics is poised to overtake the top position.

- **In fact, the Northeast market for Electrical & Electronics exports is over twice as large as in any other region.**

The Northeast's markets for high-tech products such as Electronic Components, Pharmaceuticals, Computers and Aerospace and Business Services are forecast to continue to grow fast.

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.





Top 5 exports			
Transportation Equipment	11.9	5.3	
Electrical & Electronics	10.5	16.9	
Primary Metals	7.3	6.6	
Paper	5.9	5.7	
Food	3.7	10.4	
Fastest-growing markets			
Electronic Components	32.6	8.3	7.0
Business & Prof. Services	347.2	6.5	6.1
Pharmaceuticals, Cleansers, Toiletries	47.6	7.0	6.0
Computer & Office Equip.	35.0	7.4	5.5
Aircraft & Parts	13.7	0.1	5.1
Largest "submarkets"			
Insurance Carriers & Agents	92.8	5.2	4.1
Computer Processing & Software	73.4	12.1	8.0
Motor Vehicles	69.9	3.3	3.0
Advertising	47.9	4.3	4.4
Trucking & Courier Services	44.2	4.8	2.2

Source: Industry Canada compilations based on data from Statistics Canada and DRI

Canada's exports have risen quickly to the fast-growing South

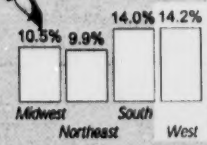
The South led all U.S. regions in recent market growth. And while the South comprises the smallest share of Canada's exports to the U.S., our exports are rising rapidly (14.0% annually, second only to the West's 14.2%).

Autos and Aerospace are among our key exports, but the greatest opportunities are once again in business services, electronic components and computers.

Rising demand for semiconductors, computer processing and aerospace top the South's market forecast.

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.

Market size: $4,502.9 Billion
Canadian exports: $29.6 Billion



Top 5 exports

	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98
Autos & Other Transportation Equip	7.9	15.1
Electrical & Electronics	4.8	11.0
Wood	3.6	15.1
Machinery	3.3	13.6
Chemicals	2.9	13.2

Fastest-growing markets

	Demand, 1998 US$ Billion	Average Annual Growth 1989-98	Forecast 2000-04
Electronic Components	52.8	13.2	8.5
Pharmaceuticals, Cleansers, Toiletries	57.2	8.4	6.8
Business & Prof. Services	506.3	8.5	6.7
Computer & Office Equip.	57.9	11.6	6.5
Aircraft & Parts	25.4	2.9	6.4

Largest "submarkets"

Insurance Carriers & Agents	116.6	6.9	5.2
Motor Vehicles	100.6	5.4	4.0
Computer Processing & Software	100.1	13.8	8.6
Trucking & Courier Services	77.6	7.3	3.0
Advertising	71.1	5.9	4.9

M-15

Source: Industry Canada compilations based on data from Statistics Canada and DRI

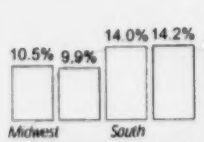
Export opportunities will be particularly strong in the West

The West is forecast to overtake the South and lead the U.S. in market growth.

To some degree, exports to the West reflect the structure of the Western Canadian economy, with Oil & Gas exports occupying a relatively important share.

- **But Computers are among our top 5 exports, as are Aerospace exports.**

The West's future is being built on a modern infrastructure that in addition to the type of exports we presently deliver, requires even greater amounts of higher knowledge goods and services. The West's market forecast highlights growing demand for Electronic Components, Computers, Business Services and Pharmaceuticals.



Market size: $2,629.7 Billion
Canadian exports: $25.6 Billion

Top 5 exports

	Exports 1998, $ Billion	Average Annual Growth % Exports 1989-98
Autos & Other Transportation Equip	7.8	15.2
Oil & Gas	5.5	10.0
Electrical & Electronics	4.1	22.3
Wood	3.2	12.3
Paper	2.1	7.2

Fastest-growing markets

	Demand, 1999 US$ Billion	Average Annual Growth 1988-98	Forecast 2000-04
Electronic Components	51.5	12.6	8.8
Computer & Office Equip.	40.8	10.6	7.1
Business & Prof. Services	296.0	8.0	6.9
Pharmaceuticals, Cleansers, Toiletries	35.3	8.1	6.8
Primary Nonferrous Metals	13.4	1.1	5.7

Largest "submarkets"

Insurance Carriers & Agents	69.9	6.3	5.1
Motor Vehicles	59.1	4.7	4.0
Computer Processing & Software	61.0	12.8	8.8
Advertising	40.8	6.1	5.3
Trucking & Courier Services	39.5	6.6	3.0

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.

Source: Industry Canada compilations based on data from Statistics Canada and DRI

Canadian export of services...

The U.S. markets for services are large and growing. International travel and a variety of other services exports have grown greatly.

- **The value of Canadian service exports to the U.S. are highest in travel services and in land transportation (which includes trucking). ***

- **But Insurance and R&D exports are also significant.**

The fastest growing areas of Canada's exports of services to the U.S. include several knowledge services — including Architecture & Engineering, R&D, and Computer & Information.

* It must be noted that many service industries face rules and regulations which may limit the potential market in the U.S. which is available.

The fastest growing U.S. service markets are in knowledge areas — Computer & Information, Management and R&D.

U.S. service markets

	Exports	Average Annual Growth			
	1998 US$ Billion	Exports 1989-98	US Market 1999 US$ Billion	Market 1989-98	Forecast 2000-04
Transportation	0.3	2.0	16.8	-2.2	3.0
» Water	0.9	11.7	133.4	4.8	5.7
» Air	2.0	12.9	258.8	5.6	2.6
» Land & Other	5.8	8.6	67.1	6.0	5.7
Travel					
Commercial	0.8	5.4	364.8	5.9	5.0
Communication	1.7	11.1	368.1	5.9	4.7
Insurance	0.5	14.8	685.8	9.3	5.9
Other Financial	0.8	13.6	301.6	13.32	8.3
Computer & Information				5.9	
Equipment Rentals	0.1	2.4	48.2	8.4	3.8
Management	0.9	12.3	148.4	5.4	7.3
Advertising	0.1	12.8	211.9	8.1	4.7
R&D	1.1	13.0	46.7	4.5	5.0
Architecture & Engineering	0.6	16.4	116.8	7.2	4.3
Miscellaneous Business	1.4	6.3	623.0	5.9	6.4
Personal, Cultural & Recreation	0.1	2.5	796.2		3.9

Source: Industry Canada compilations based on data from DRI and Statistics Canada (international services transactions receipts)

Trade information is generally available for merchandise trade. However, service industries are growing tremendously in importance. For information on services exports we rely on data on Canada's international services transactions receipts to the U.S. (U.S. regional break-outs are not available)

...show great potential in all regions of the U.S. market

The forecast is for continued strong growth in knowledge services like R&D, Management and Computer Services across all regions of the U.S.

Canada must capitalize on the growth potential of services exports.

The forecast areas of high growth in the U.S. service markets are in knowledge areas — and growth potential, while high in the South and West regions of the U.S. is also significant in other regions.

Growth of U.S. regional service markets

	Northeast		South		Midwest		West	
	Market	Forecast 2000-04	Market	Forecast 2000-04	Market	Forecast 2000-04	Market	Forecast 2000-04
Transportation								
Water	3.5	2.6	8.2	3.4	3.7	2.7	3.3	3.2
Air	29.9	5.2	44.8	6.1	31.5	5.1	27.2	6.1
Land & Other	15.9	3.7	25.2	4.4	19.1	3.5	13.2	4.8
Travel	14.3	5.1	23.7	6.2	15.3	5.3	13.9	6.1
Commercial Communication	90.8	4.6	116.7	5.3	84.4	4.6	72.9	5.4
Insurance	92.8	4.1	116.6	5.2	88.8	4.3	69.9	5.1
Other Financial	182.7	5.8	214.9	6.1	155.5	5.3	132.7	6.2
Computer & Information	73.4	8.0	99.9	8.6	67.2	7.7	61.0	8.8
Equipment Rentals	10.2	3.4	16.9	4.0	11.7	3.1	9.5	4.4
Management	33.4	6.9	51.7	7.7	34.3	6.8	28.9	7.8
Advertising	54.7	4.4	71.1	4.9	52.0	4.2	40.8	5.3
R&D	11.4	5.8	15.8	6.5	9.6	5.6	9.9	5.9
Architecture & Engineering	23.6	4.1	43.6	4.5	26.1	3.8	23.6	4.9
Miscellaneous Business	147.2	6.0	207.2	6.7	146.2	5.9	122.3	6.9
Personal, Cultural & Recreation	191.3	3.3	256.5	4.3	181.7	3.4	166.7	4.3

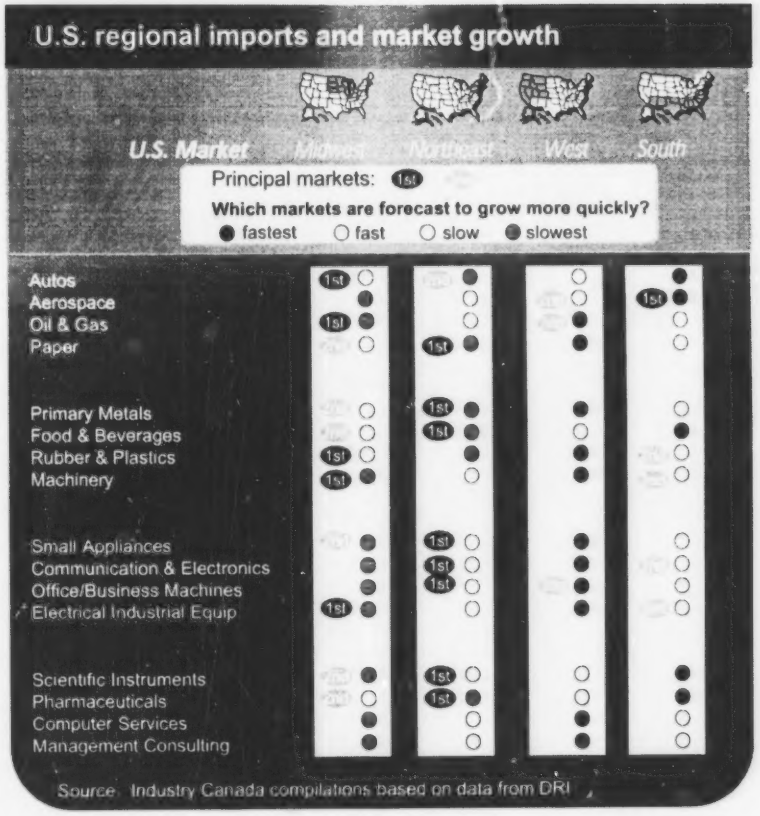
Source: Industry Canada compilations based on data from DRI and Statistics Canada (international service transactions receipts)

The West and South are forecast to have the quickest-growing import markets for Canadian products and services!

As Canada's economic relations with the U.S. grows, and industry exports expand beyond principal or traditional U.S. regional markets, we should see "secondary" markets continuing to grow quickly.

And while the largest markets of most industry exports are in the Midwest and Northeast, markets in the South and West are forecast to have faster growth.

Many of industries' biggest opportunities, in terms of growth and value, are in geographic markets that are nearby — in the Northeast or Midwest. But much promise lies in the West and South.



How can we take better advantage of our opportunities in the U.S.?

Taking full advantage of opportunities...

Opportunities are there:

- **But how to take advantage?**
- **And which ones will be most important to our future?**

It is necessary to realize, firstly, that we <u>need</u> to take advantage of opportunities, and to do so requires some <u>readiness</u> on the part of business

Opportunities for the taking?
We must bear in mind...
...we cannot take our present success for granted
...and the status quo is not an option
We must become...
...more outward-looking — with more firms and industries looking beyond our borders
...more forward-looking — engaging in high-productivity activities including new & emerging goods/services

...begins by recognizing Canadian business cannot stand pat...

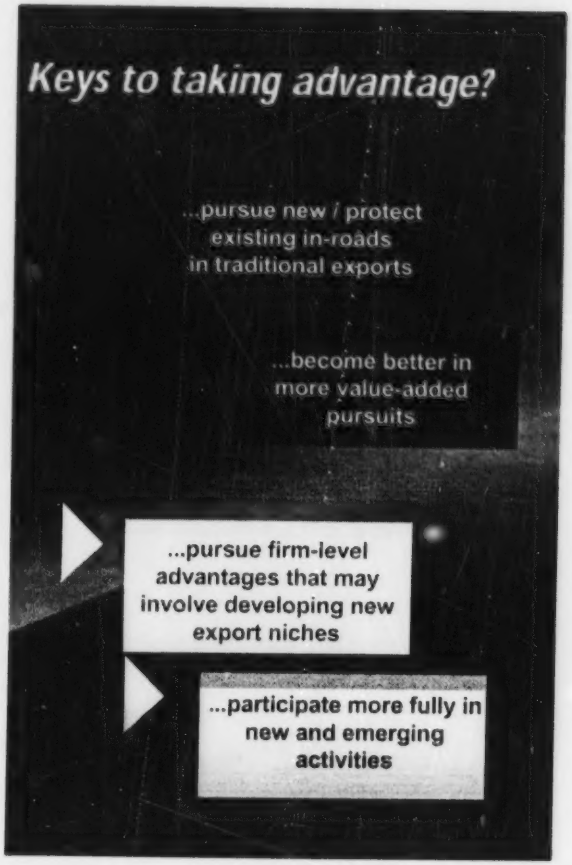
For many firms who are first-evers and new-to-market when it comes to exporting:

- **They will find they cannot afford to be just "almost as good" as their competitors in U.S. markets — for sustainable success they must continuously find ways to be <u>better</u>.**

For firms linked to MNCs:

- **They will need to make corporate decision-makers notice the abilities and merits of Canadian operations versus competing operations**

The world is changing, requiring a forward-looking and global outlook on the part of business, and new ways of doing business. Without these, Canada's existing in-roads may erode over time.


Keys to taking advantage?
...pursue new / protect existing in-roads in traditional exports
...become better in more value-added pursuits
...pursue firm-level advantages that may involve developing new export niches
...participate more fully in new and emerging activities

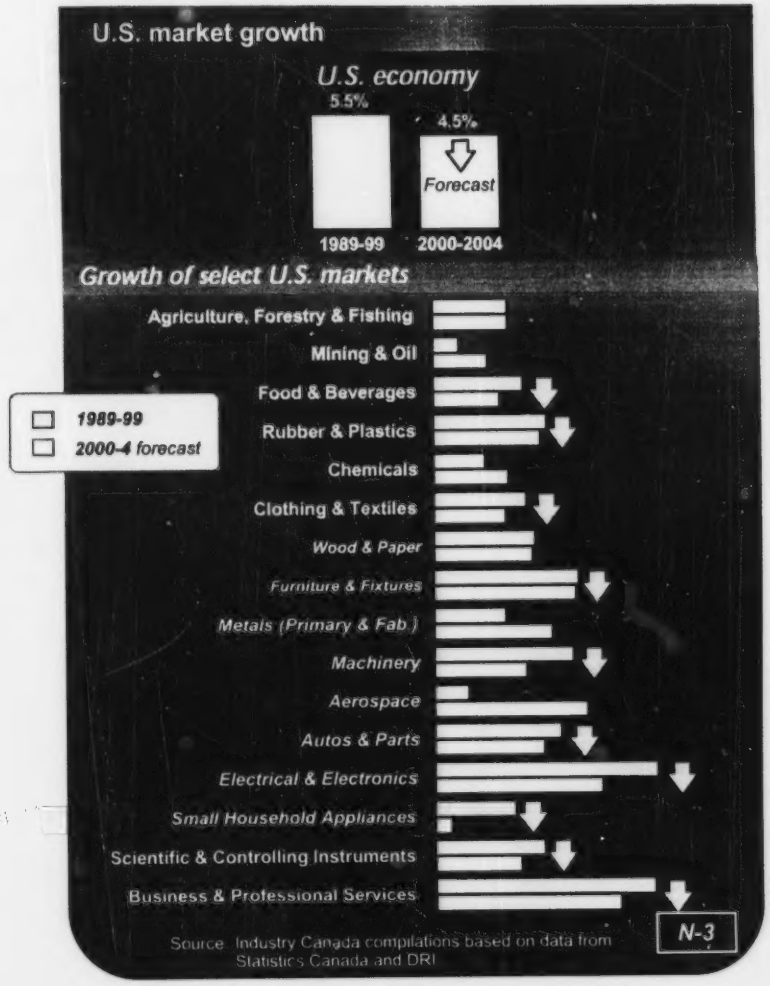
...and by realizing there is no "status quo" option...

Canada's export expansion into U.S. markets in recent years has benefitted tremendously from a buoyant U.S. marketplace.

But the U.S. economy is forecast to slow slightly, which will lead to stronger competition in U.S. markets.

This will especially be true in non-resource areas, where Canada does not have industry-level comparative advantages.

- **In these areas, Canada will need to rely on firm-level advantages — based on innovative practices and highly productive and unique processes and products/services for success.**

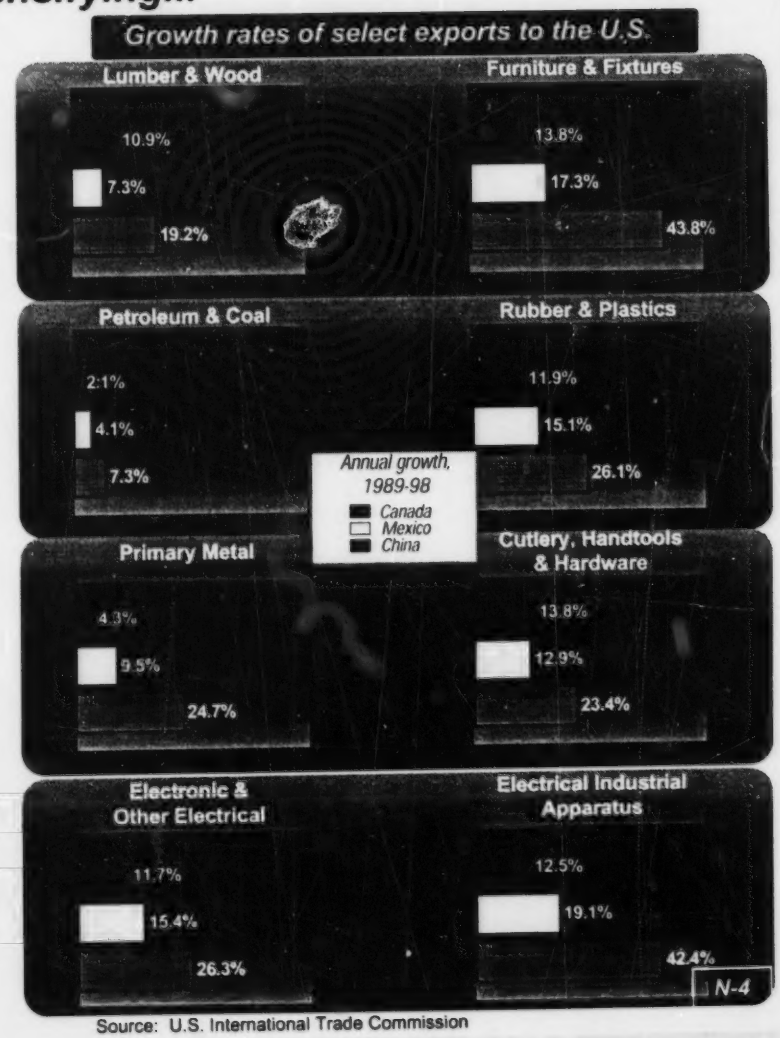


...rather, competition will be intensifying...

Other countries' businesses are making rapid in-roads, <u>especially</u> in more value-added portions, including in Canada's traditional export markets.

For instance, even though Canada's exports to the U.S. are increasing, exports from Mexico and China are generally growing much more quickly, and particularly fast in segments requiring greater processing.

There are rumblings on the horizon that attest to the emerging export strength of competitors which could threaten our current position in U.S. markets.



Source: U.S. International Trade Commission

...threatening our current "edges"...

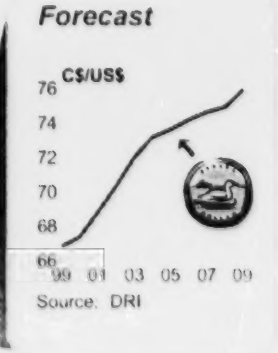
What we might also consider as current factors behind Canada's recent success in U.S. markets, such as having the U.S. as a next-door neighbour and having a lower dollar, are losing impact.

- **Globalization and the information revolution result in Canada losing some relative advantages from proximity. It is easier for other countries to learn about and access the U.S. marketplace.**

- **As well, our dollar is strengthening.**

The Canadian dollar is strongly tied to commodity prices, which have been recently rising

The stronger dollar is also a reflection of improved unit labour costs and continuing low inflation. The forecast is for further strengthening.



...even in Canada's traditionally-strong export pursuits

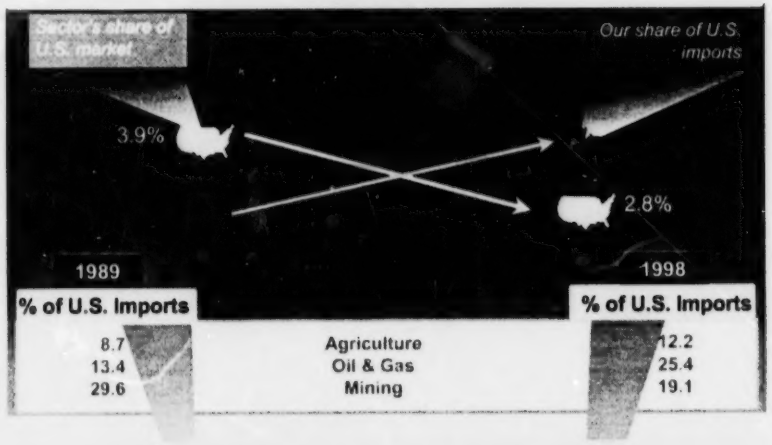
Resources remain a strong export sector. But they comprise a declining share of the total U.S. market.

This means Canadian industry must move into more value-added, and knowledge-intensive segments.

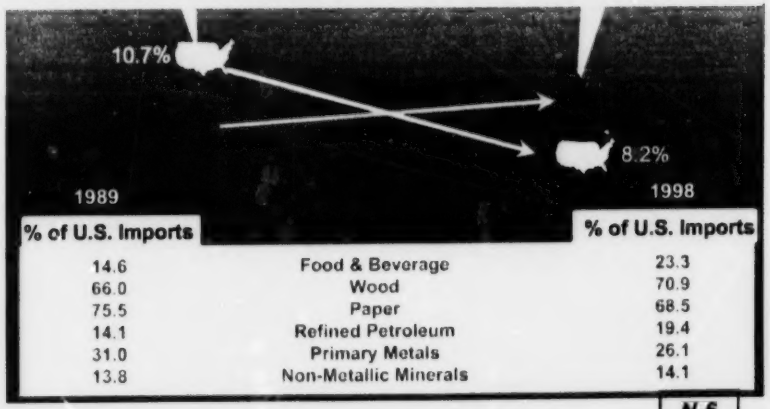
However, foreign exporters are also moving up the value-added ladder.

The future lies in moving up the value-added ladder.

Resources*



More value-added resource-based activities



N-6

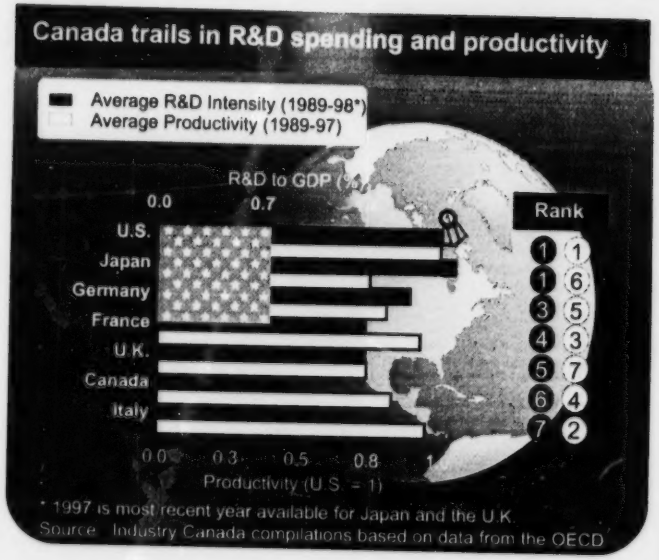
* Also includes Logging and Fishing & Trapping
Source: U.S. International Trade Commission

Indeed, the world is changing, requiring the pursuit of new "essentials" for business success...

The future will be with countries with businesses that attest to speed, quality, better product features and better processes — the new "essentials" for business success.

This will depend on being more innovative and productive.

These new "essentials" transcend resource endowments and the benefits of proximity. Rather they place a premium on ideas and innovation, and their beneficial impact on productivity to sustain business success.



...by forward-looking and outward-looking firms and industries that focus on being more innovative

Firms in forward-looking industries are always looking for new ways to make, customize and add more value to their products and services.

And it is vitally important to be outward-looking, because forward-looking firms need large markets to undercut the high costs associated with R&D and other expenses linked to knowledge activities, and to better reap the benefits of specialization and economies of scale.

In many countries, the leading R&D industries tend to show above average outward orientation.

Leading industries in R&D spending*, 1995

		Ratio of R&D spending to value-added	Relative Outward Orientation** (Total Manuf. = 100)
		%	
Canada	*Radio, TV & Communications*	34.5	102
	Office & Computer Machines	26.7	349
	Aircraft	19.0	84
U.S.	*Aircraft*	45.0	211
	Office & Computer Machines	39.2	343
	Professional Goods	24.4	129
Japan	*Office & Computer Machines*	24.7	250
	Drugs & Medicine	20.7	16
	Professional Goods	20.2	414
France	*Aircraft*	33.6	202
	Radio TV & Comm	31.6	106
	Drugs & Medicine	27.8	112

* Industries with the highest R&D intensity
** Outward orientation is calculated as Exports/Value Added
Source: OECD

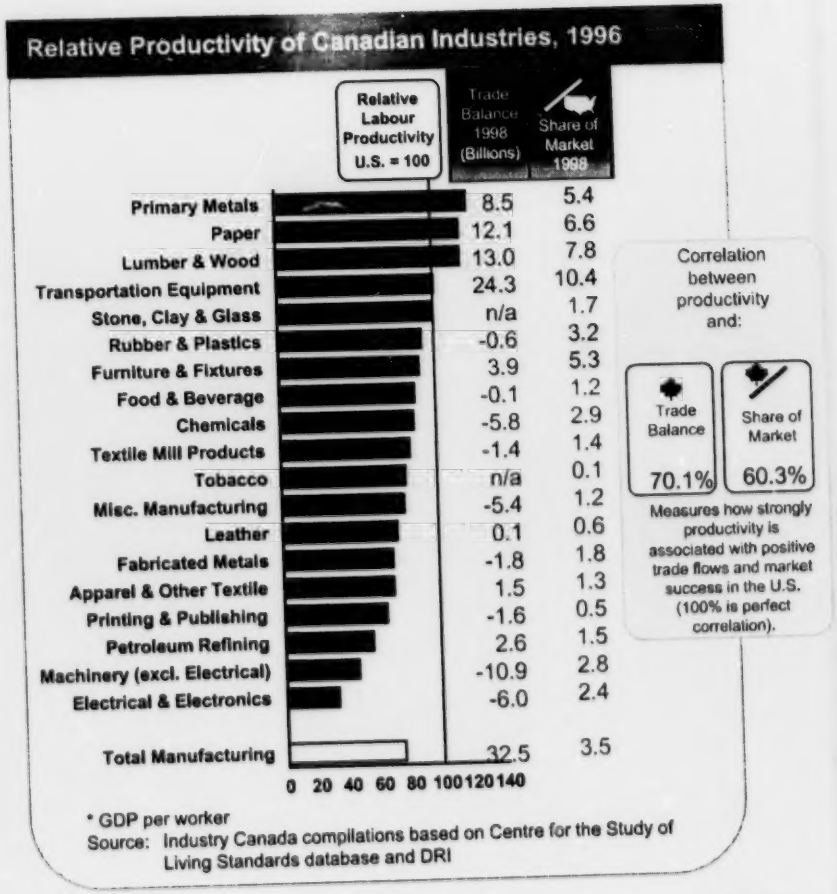
Some of our exports reflect higher-than-U.S. productivity...

In many of our traditional export areas, Canada is more productive than the U.S.

- **Plus, Canada is as productive as the U.S. in the important Transportation Equipment sector.**

But in most industries, and across all aggregate sectors, Canada lags badly behind the U.S.

Canada's share of the U.S. market is relatively high in many areas in which Canada is relatively more productive.


Relative Productivity of Canadian Industries, 1996
Relative Labour Productivity U.S. = 100
Trade Balance 1998 (Billions)
Share of Market 1998
Primary Metals 8.5 5.4
Paper 12.1 6.6
Lumber & Wood 13.0 7.8
Transportation Equipment 24.3 10.4
Stone, Clay & Glass n/a 1.7
Rubber & Plastics -0.6 3.2
Furniture & Fixtures 3.9 5.3
Food & Beverage -0.1 1.2
Chemicals -5.8 2.9
Textile Mill Products -1.4 1.4
Tobacco n/a 0.1
Misc. Manufacturing -5.4 1.2
Leather 0.1 0.6
Fabricated Metals -1.8 1.8
Apparel & Other Textile 1.5 1.3
Printing & Publishing -1.6 0.5
Petroleum Refining 2.6 1.5
Machinery (excl. Electrical) -10.9 2.8
Electrical & Electronics -6.0 2.4
Total Manufacturing 32.5 3.5
0 20 40 60 80 100 120 140
* GDP per worker
Source: Industry Canada compilations based on Centre for the Study of Living Standards database and DRI
Correlation between productivity and:
Trade Balance 70.1%
Share of Market 60.3%
Measures how strongly productivity is associated with positive trade flows and market success in the U.S. (100% is perfect correlation).

...and Canada's growing success in niche markets...

Success in many niche markets reflects the efforts of individual firms and particular sub-industries.

These efforts must be sustained for firms to <u>remain</u> competitive and to successfully evolve with markets. Otherwise, firms have a natural tendency to "slip down the business food chain".

Select industry niche exports — and special segments

	Exports		U.S. Market		
	US$ Million 1998	Annual Growth 1989-1998	US$ Billion 1999	Annual Growth 1989-1999	Our Share of U.S. Market * 1998
		%		%	%
Clothing	1,455	22.3	112.5	4.4	1.3
Broad Knitted Fabric	298	50.0	n/a	n/a	n/a
Men's & Boy's	861	34.1	n/a	n/a	n/a
Children's	145	28.8	n/a	n/a	n/a
Women's	594	26.8	n/a	n/a	n/a
Textiles	1,210	18.2	82.8	1.8	1.4
Furniture & Fixtures	3,697	13.8	71.5	5.0	5.3
Household	84	16.0	32.6	4.3	0.3
Office	1,106	19.1	21.1	6.0	5.4
Chemicals	4,222	4.3	144.5	1.8	2.9
Paint & Allied	242	28.2	17.8	3.2	1.4
Plastic & Synthetic Resin	2,148	18.3	38.5	2.1	5.4
Soap & Cleaning	298	18.2	24.8	2.2	1.2
Agricultural Chemicals	1,221	5.9	11.9	2.9	10.2
Industrial Chemicals	2,627	3.0	108.7	1.4	2.4
Rubber & Plastics	7,088	13.0	225.2	3.9	3.2
Foamed & Expanded Plastics	178	18.4	n/a	n/a	n/a
Plastic Bags & Other Plastics	2,667	17.6	n/a	n/a	n/a
Plastic Pipe & Pipe Fittings	187	16.8	n/a	n/a	n/a
Commercial Services	9,433	10.8	7,105.4	6.6	0.1
Advertising	117	10.0	445.4	7.5	0.1
Transportation Services	3,241	8.1	804.4	5.2	0.4
Land Transportation	2,012	10.1	277.5	6.3	0.8
Other					
Small Electrical Appliances	339	7.8	11.1	2.8	3.2
Electric Lighting	549	5.9	27.8	2.5	2.0

* It must be noted that many exports face rules and regulations which may limit the potential market in the U.S. which is available.

Source: Industry Canada compilations based on data from DRI, U.S International Trade Commission and Statistics Canada (merchandise exports for office furniture and international services transactions receipts)

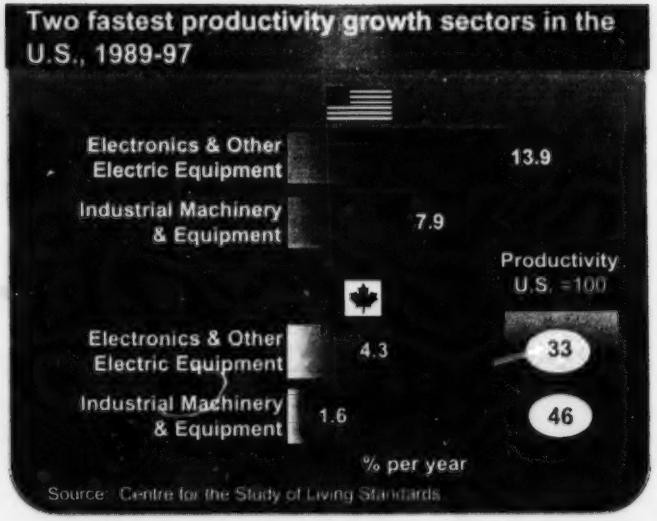
...but we are not successful in leveraging some key industries...

The U.S. economy's enviable productivity performance has been driven by two computer-related sectors — Electronics & Electric Equipment, and advanced Industrial Machinery.

- **These two sectors outpaced their Canadian counterparts by more than three times.**

- **During the last decade, the share of these two manufacturing sectors in the U.S. doubled — while Canada's share increased only marginally.**

The U.S. is better at riding the technological wave to growth — its industrial structure shifting much more quickly than Canada's towards dynamic, high growth, high productivity industries.



Faster labour productivity growth in the U.S. has been the subject of much current attention. A recent study shows that (total factor) productivity in these two industries has been growing much more quickly in the U.S. Between 1979 and 1995, they contributed to only 17% of Canada's manufacturing productivity growth, while in the U.S. they contributed 57%. Indeed, the performance of these two "industries of the future" explains over 90% of the productivity growth gap between Canada and the U.S. (Wulong Gu and Mun S. Ho, A Comparison of Productivity Growth in Manufacturing Between Canada and the U.S., 1961-95," January 2000).

...that may be vital to our future

Many of the high-tech or high-knowledge markets in the U.S. and U.S. imports from the world have grown faster than Canadian exports.

In areas of Computer processing, and electronic equipment , Canadian exports are not keeping up with U.S. market growth nor with foreign competitors.

U.S. market growth, 1989-98

	Market Size $US Billion	Annual growth (%) in: U.S. Market	U.S. Exports	Canada Exports
Communications	350.0	5.9	5.9	n/a
Computer Processing/Software	274.0	13.2	10.8	19.0
Electronic Components	156.7	11.3	9.3	11.8
Computer & Office Equip.	155.8	10.0	10.1	15.7
Management & Consulting	135.5	8.4	9.5	16.3
Scientific & Controlling Instrum.	126.6	3.6	15.7	8.7
Audio, Video & Comm. Equip.	114.4	7.2	16.0	11.3
Pharmaceuticals	126.1	10.9	29.4	19.9
Architecture & Engineering	110.7	4.5	13.5	12.3
Aircraft & Parts	85.7	2.2	10.8	8.1
Testing & Research Labs	43.7	8.1	10.2	13.2
Electrical Industrial Equip	42.5	4.5	12.0	10.4

Source: Industry Canada compilations based on data from Statistics Canada and the Centre for the Study of Living Standards

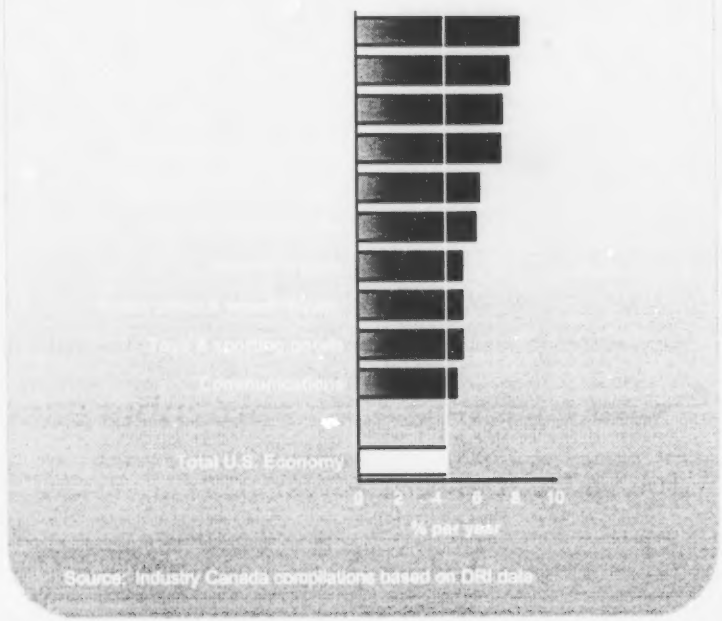
A basic challenge for Canadian businesses in high-tech and high-knowledge areas is to be more competitive than their U.S. counterparts and foreign competitors.

Indeed, the future bodes well for these industries

Forecasts indicate that the most dynamic U.S. markets will include many of the same sectors which experienced strong growth over the last decade — and which reflect many high value-added and knowledge-intensive activities.

Our future will increasingly depend on taking advantage of opportunities in faster-growing high-knowledge markets.

U.S. market growth forecast, 2000-4



Source: Industry Canada compilations based on DRI data

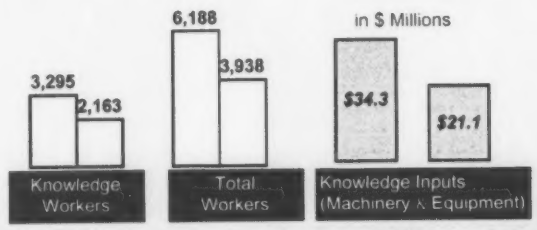
Still, even our present exports have intricately-important links that stimulate knowledge-use in other domestic sectors...

Our exporting industries' R&D and innovation benefit other sectors by generating new products and processes that can be used to enhance productivity elsewhere.

Many industries that export to the U.S. have stronger than average links to Canada's knowledge-based economy.

The links between exports to the U.S. and domestic industry

Knowledge jobs/investment per $1 Billion increase in export sales to the U.S.



Source: Industry Canada computations based on 1988 Input-Output data from Statistics Canada

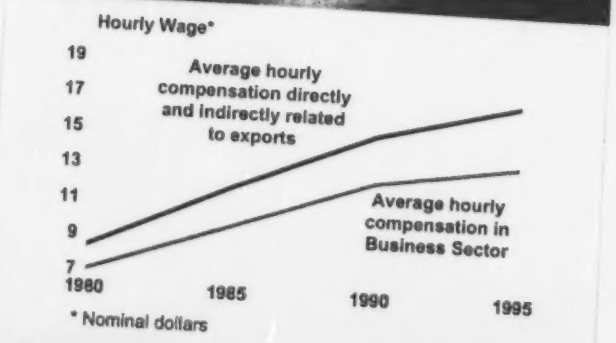
...especially our higher-knowledge exports...

Average hourly pay associated with exports is relatively high.

Export growth also creates a derived demand for domestic inputs, many of which are knowledge-based. Consequently, Canada's export growth is not only helping to generate many good jobs in exports, but is playing a major role in promoting the expansion of other industries that raise the knowledge-intensity of the economy.

Canada's exports contribute to the growth of many knowledge industries which are critical to the rate of knowledge adoption and technological progress in the economy as a whole — and assist Canada in our transition to a more knowledge-based and forward-looking economy.

Hourly compensation



Exports to the U.S. and links to knowledge industries

Per $1 Billion increase in export sales to the U.S.

	Knowledge Jobs Created	
	Indirect	Direct
	271	
	220	
	214	
	168	
	119	
	118	
	116	
	106	
* Electric Power Systems	65	122
	50	10

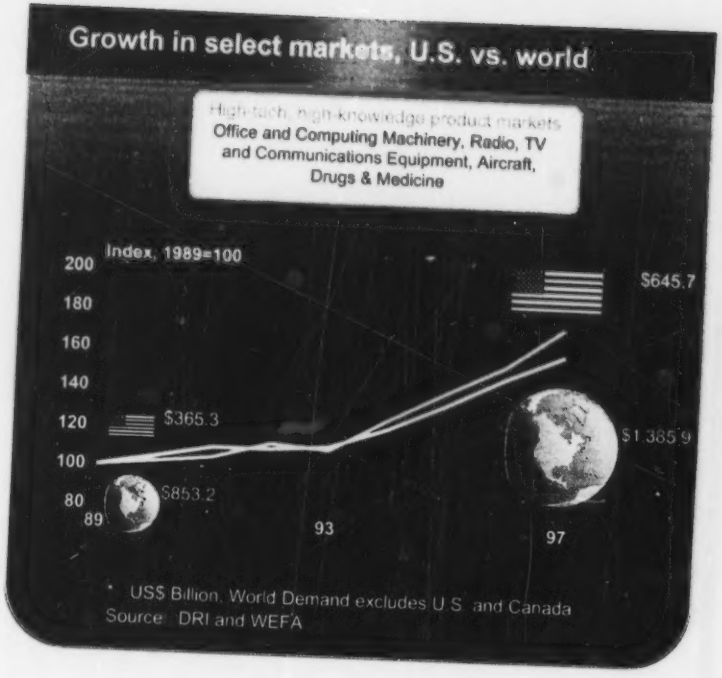
* Higher-skill and knowledge-intensive industries.

Source: Industry Canada's compilations based on Statistics Canada data

...which add to our present well-being...

While the U.S. is a leading market for many new products and services, world markets for high-tech and high-knowledge products and services are also growing quickly — and are potentially much larger markets.

If Canada does well in U.S. markets and earns recognition, our firms will be well-placed to take advantage of global opportunities.



...and help position us for future prosperity

Some key messages

Opportunities are there! ...

With globalization, the information revolution and the rising importance of knowledge-based activities, business must, more than ever, pounce on opportunities. And as the world's largest, richest, most dynamic and technologically-advanced market, the U.S. provides an abundance.

This raises two questions:

How well are we doing?

Canada has had recent success in expanding exports to the U.S. — *but:* Canada's recent successes are still small relative to the size of the market, and times may become increasingly competitive. The world that Canada confronts in this new millennium will be the most economically competitive in history, and Canada will have to energetically pursue U.S. markets to both maintain present in-roads, and to take full advantage of new opportunities.

And can we do better — can we better maximize our opportunities?

Yes — *but:* taking better advantage of opportunities means expanding Canada's exports to a wider range of activities, including products and services that could be particularly important for our future prosperity. It also means recognizing the importance of regional markets, and the need to broaden individual industry exports to markets throughout the whole of the U.S.

...but how can Canada take better advantage of opportunities?

To take better advantage of opportunities in the U.S., Canada must build on traditional comparative advantages. Nowadays, there is increased importance on inventiveness, productivity, quickness and the general ability to take advantage of opportunities, especially in more value-added and knowledge-intensive activities. Indeed, these are now crucial to sustainable competitive success in all industries — and especially in those which will be most important to Canada's future.

Which opportunities will be most important to Canada's future?

While Canada must continue to pursue opportunities in traditional areas such as resources, it is also crucial that Canada also seek opportunities in new niche and emerging areas that involve greater or higher value-added activities. Opportunities exist across all industries, but high-tech industrial equipment and high-knowledge services are especially associated with future prosperity.

However, success in niche and emerging areas entails developing firm-level competitive advantages that can complement traditional industry comparative advantages. It also requires some readiness on the part of Canadian business, to be outward and forward-looking, and to take steps to be more innovative and productive.

These do not come without the need to address some serious challenges.

In the next issue of the Micro-Economic Monitor, we will feature Canada's Growing Economic Relations with the United States: Part 3 — "Turning Challenges into Strengths".

It will look at special challenges in pursuit of these opportunities, that include breaking into the U.S. market, and maximizing opportunities from knowledge flows – in capital, people and ideas. Also, it will examine some special considerations, such as Canadian regional concerns — for instance, where in the US do our regions export; what are their key exports; and how these exports are changing.

Annex

— *Opportunities and U.S. Regions* —

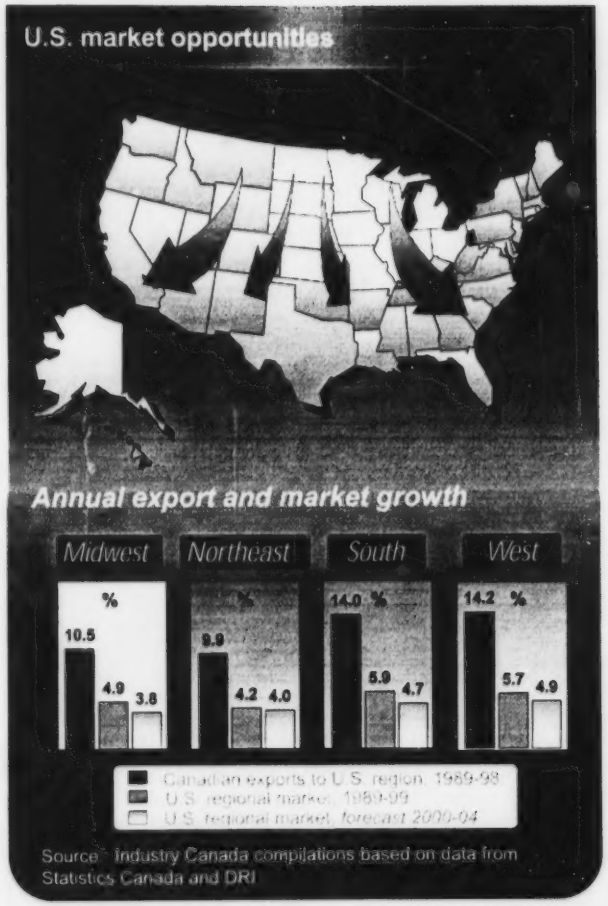
Opportunities can be found throughout the U.S. ...

Opportunities exist throughout the U.S.*

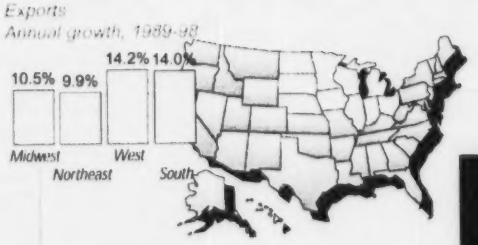
- **To take better advantage of these, we must recognize the unique potential that each U.S. region holds.**

Our links are strongest with the northern states, but the U.S. West and South are growing faster, and our exports are responding.

This annex focuses on merchandise exports. For additional information on service exports, please see slides M-17 to M-19.



...beginning with our key markets in the U.S. Midwest...



Canada's largest exports are still to the U.S. Midwest. Our exports in recent years have been growing in excess of 10% per year.

- **Canada's exports to the Midwest fall mostly under traditional areas of strength, such as Transportation Equipment, Oil & Gas and Paper.**

However, growing export areas include Electrical & Electronics and resource-based industries such as food and wood, as well as higher value-added activities such as chemicals, fabricated metals, plastics and furniture.

	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98	Average Annual Growth, % U.S. Output 1989-97
Top 5 exports			
Transportation Equipment	55.5	9.3	3.7
Oil & Gas	7.4	7.0	-3.1
Paper	5.5	4.7	3.5
Primary Metals	5.0	9.2	2.1
Machinery	4.8	12.9	3.9
Next 10			
Chemicals	**4.5**	**11.6**	**6.7**
Wood	**4.4**	**17.8**	**4.8**
Electrical & Electronics	**3.4**	**13.0**	**3.0**
Fabricated Metals	**2.8**	**14.5**	**5.1**
Plastics & Rubber	**2.3**	**16.7**	**6.5**
Food	**2.1**	**19.6**	**4.0**
Agriculture & Fishing & Logging	**2.1**	**14.4**	**2.3**
Furniture & Fixtures	**2.0**	**13.9**	**6.2**
Non-Metallic Minerals	**1.2**	**12.7**	**5.7**
Petroleum & Coal Products	**1.2**	**7.8**	**-0.1**

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

...where auto exports dominate...

The integrated North American auto industry has been an important impetus to Canada's large auto exports to the U.S. auto hotbed of Michigan.

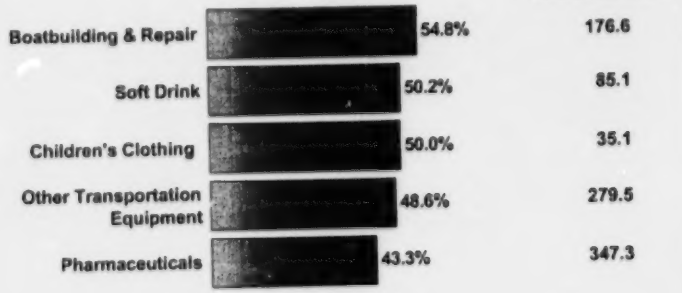
As the U.S. industrial heartland, the Midwest imports energy, paper products, and miscellaneous machinery and equipment, as well as primary metals and wood.

But other exports are making a mark, including consumer items such as clothing, soft drinks and pharmaceuticals.

Our exports to the Midwest by detailed sub-activity

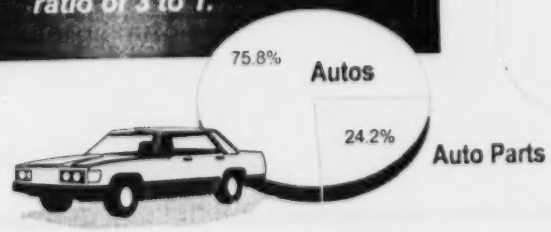
Top 5 export sub-activities	Exports, 1998 $ Billion	Average Annual Growth, % Exports 1989-98
Motor Vehicles	39.6	10.5
Motor Vehicle Parts	12.6	5.5
Crude Petroleum	7.4	7.0
Pulp & Paper	4.1	2.1
Misc. Machinery & Equipment	4.0	15.2

Fastest growing export sub-activities



Source: Industry Canada compilations based on data from Statistics Canada

Canadian auto exports to the Midwest out-number exports of parts by a ratio of 3 to 1.



P-3

...but high-knowledge markets are growing quickly...

The Midwest's market is expected to show continuing strength.

However, the biggest and fastest growing areas will be in "higher-knowledge" areas.

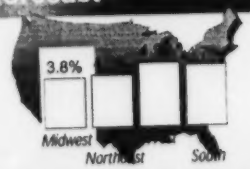
That is, there will be particularly strong demand for such advanced and "new economy" products and services as pharmaceuticals, business services and computer equipment.

Our current exports are not well-matched with the new market growth areas in the Midwest.

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

The Midwest's market forecast

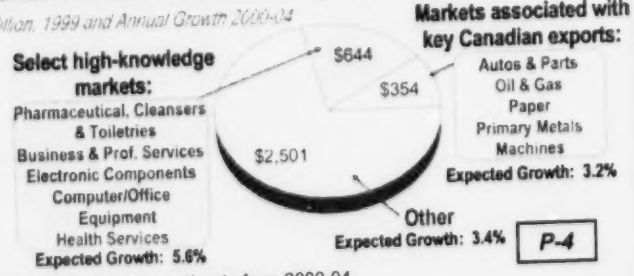
Annual growth, 2000-04



Top 5 markets (by growth)*	Demand, 1999 US$ Billion	Average Annual Growth 1989-99	Average Annual Growth Forecast 2000-04
Pharmaceutical, Cleansers & Toiletries	43.4	7.4	6.0
Electronic Components	34.9	9.5	5.9
Business & Prof. Services	347.1	7.6	5.9
Computer/Office Equipment	36.8	9.7	5.4
Health Services	182.5	6.7	4.8
Next 5			
Audio, Video & Commun. Equip.	**28.1**	**6.5**	**4.8**
Primary Nonferrous Metals	**32.2**	**0.9**	**4.7**
Aircraft & Parts	**16.0**	**2.2**	**4.7**
Furniture & Fixtures	**18.2**	**4.5**	**4.4**
Plastic & Synthetic Materials	**16.4**	**2.3**	**3.8**
Primary Ferrous Metals	**48.0**	**1.8**	**3.7**

Regional markets and forecast growth

US$ Billion, 1999 and Annual Growth 2000-04



P-4

* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

...as the region's forecast includes the "new economy"...

The largest increases are expected in computer processing & software, management consulting and pharmaceuticals.

Imports are expected to play a big role in helping to fulfil U.S. demand in its key market growth areas. It would be to Canada's advantage to position itself to provide many of these imports.

Canada needs to exploit fast-growing market segments in the U.S. economy that will open themselves to rising imports.

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

The Midwest's detailed forecast of "submarkets"

Key "submarkets"	Demand 1999 US$ Billion	Average Annual Growth Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Motor Vehicles	$71.7	4.5	3.1	4.5
Computer Process./Software	$67.2	12.7	7.7	10.7
Trucking/Courier Svc's	$61.4	6.6	2.3	3.0
Motor Vehicle Parts	$54.8	2.7	3.5	2.8
Misc. Plastics	$36.3	5.0	3.4	2.9

Fastest growing "submarkets" 2000-2004

		Demand 1999, US$ Billion	Growth in Imports 2000-04
Computer Processing & Software	7.7%	67.2	10.7
Pharmaceuticals	7.0%	31.6	10.3
Management & Consulting	6.8%	34.3	6.9
Radio & TV Broadcasting & Communication Equip	6.7%	10.2	12.1
Aircraft	6.4%	8.2	5.7

Note: Submarkets of at least US$ 5 Billion
Source: Industry Canada compilations based on data from DRI

...and many additional promising areas for exports

Traditional

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Petro Refining & Related Prods	35.4	0.3	3.3	6.3	
Crude Petroleum & Natural Gas	11.7	-1.4	3.9	7.5	
Aluminum	16.5	1.1	5.7	7.0	
Concrete & Gypsum	8.7	5.8	3.6	6.4	●

Niche

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Apparel from Purch. Material	24.7	4.3	3.1	5.0	
Plastic Materials & Resins	14.1	2.5	4.1	5.9	●
Toys & Sporting Goods	7.5	6.6	4.8	5.5	
Office Furniture	6.5	4.8	5.3	9.3	●
Toilet Preparations	5.7	3.4	3.6	5.9	
Paints & Allied	5.7	3.1	2.4	10.7	●

Value-added Traditional

Non-Alcoholic Beverages	11.4	5.3	3.1	6.3	●
Agri/Forestry/Fish. Services	10.3	5.0	2.4	5.2	●
Soap & Cleaning Preparations	6.0	2.0	2.6	8.2	

New & Emerging

Printing & Publishing **	54.7	3.6	2.5	5.7	○
Engineering & Architecture	26.1	4.9	3.8	4.1	○
Communication Equipment	21.1	9.5	5.7	9.1	●
Meas./Control Instruments	6.4	5.0	1.1	5.4	●

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

Our Presence*

● High ● Above Avg Average ○ Low

Only national info available, see slide M-17

* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

** Reflect new developments in financial and media industries

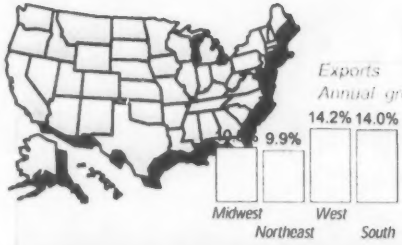
Source Industry Canada compilations based on data from DRI

In the Northeast...

Autos & Other Transportation Equipment account for the largest share of our exports to the Northeast.

However, a burgeoning Electrical & Electronics sector is poised to overtake that position. In fact, the Northeast market for Electrical & Electronics exports is over twice as large as in any other region.

Canada's Electrical & Electronics exports to the Northeast are growing about 5 times more quickly than regional industrial output.



	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98	U.S. Output 1989-97
Top 5 exports			
Transportation Equipment	11.9	5.3	-0.4
Electrical & Electronics	10.5	16.9	3.3
Primary Metals	7.3	6.6	-0.01
Paper	5.9	5.7	1.9
Food	3.7	10.4	1.5
Next 10			
Wood	3.7	10.8	1.7
Oil & Gas	3.1	15.0	-11.2
Chemicals	2.9	13.8	5.6
Machinery	2.2	10.5	-0.1
Fabricated Metals	1.7	10.8	3.3
Petroleum & Coal Products	1.6	2.6	6.7
Furniture & Fixtures	1.5	18.8	1.4
Plastics & Rubber	1.4	14.9	4.9
Clothing	1.3	23.6	-0.1
Non-Metallic Minerals	0.8	8.3	5.0

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

...our high-tech exports are growing fast...

While resource-based industries such as primary metals, paper & food products continue to be an important anchor of our export base, new strengths are emerging in areas of high value-added content, such as pharmaceuticals & clothing.

Within key contributing segments of the Electrical & Electronics sector, Communication & Electronics comprise approximately 50% of exports.

These exports are outpacing the growth in demand for Oil & Gas, and are twice as large in value.

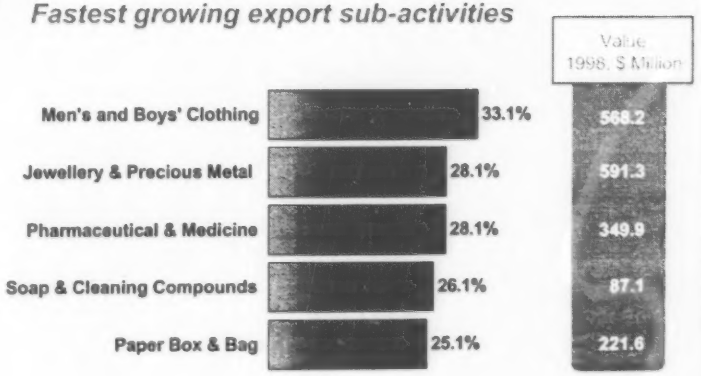
Motor vehicles are still king, and resources remain important. But a new coronation is on the horizon — Communications & Other Electronics exports are rising rapidly.

Our exports to the Northeast by detailed sub-activity

Top 5 export sub-activities

	Exports, 1998 $ Billion	Average Annual Growth, % Exports 1989-98
Motor Vehicles	8.7	4.5
Communication & Electronics	6.2	18.6
Non-Ferrous Smelting & Refining	5.2	6.1
Pulp & Paper	4.6	3.7
Crude Oil & Natural Gas	3.1	15.0
Office/Store/Business Machines	2.8	14.8

Fastest growing export sub-activities



Source: Industry Canada compilations based on data from Statistics Canada

...reflecting brisk demand for knowledge activities...

Demand for Electronic Components and other knowledge goods and services is growing faster than for any other sector — and considerably faster than the regional average.

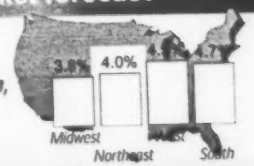
While our exports still largely reflect the strength of our auto sector and many resource-based activities, their markets and market growth will be smaller than for high-knowledge products and services.

The future is here —

the markets of greatest growth are increasingly based in high-knowledge activities, while we still export in lower knowledge areas.

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

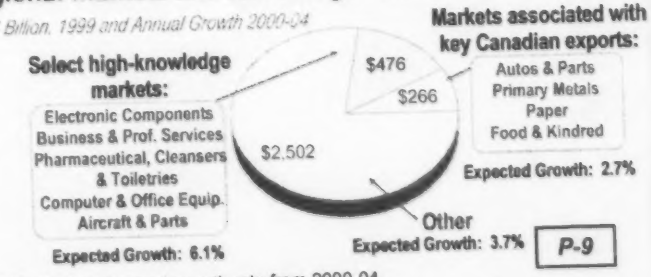
The Northeast's market forecast



Top 5 markets (by growth)*	Demand, 1999 US$ Billion	Average Annual Growth 1989-99	Average Annual Growth Forecast 2000-04
Electronic Components	32.6	8.3	7.0
Business & Prof. Services	347.2	6.6	6.2
Pharmaceutical, Cleansers & Toiletries	47.6	7.0	6.1
Computer & Office Equip.	35.0	7.4	5.5
Aircraft & Parts	13.7	0.1	5.1
Next 5			
Audio, Video & Commun. Equip.	**26.4**	**5.9**	**4.8**
Primary Nonferrous Metals	**16.3**	**-1.6**	**4.4**
Furniture & Fixtures	**15.8**	**3.8**	**4.4**	
Lumber & Wood	**21.5**	**3.0**	**3.7**
Fabricated Metals	**39.2**	**1.7**	**3.5**

Regional markets and forecast growth

US$ Billion, 1999 and Annual Growth 2000-04



* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

...particularly in knowledge services...

Knowledge services have made strong in-roads in the Northeast.

Computer processing and software is both the largest and the fastest-growing submarket in the region.

Special challenge:

Canada must not give up on traditional export strengths, but must also consider ways of exploiting the rapid rise in high-tech and knowledge items and services.

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

The Northeast's detailed forecast of "submarkets"

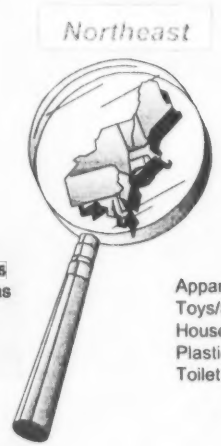
Key "submarkets"	Demand 1999 US$ Billion	Average Annual Growth: Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Computer Process./Software	73.4	12.1	8.0	11.0
Motor Vehicles	69.9	3.3	3.0	4.4
Trucking/Courier Svc's	44.2	4.8	2.2	2.9
Pharmaceuticals	31.9	9.6	7.0	10.3
Management/Consulting	30.2	7.0	6.9	7.0

Fastest growing "submarkets" 2000-2004

		Demand 1999, US$ Billion	Growth in Imports 2000-04
Semiconductors	8.1%	17.8	11.3
Computer Processing & Software	8.0%	73.4	11.0
Pharmaceuticals	7.0%	35.3	10.3
Management & Consulting	6.9%	33.4	7.0
Radio & TV Broadcasting & Commercial Equip	6.7%	9.4	12.2

Note: Submarkets of at least US$ 5 Billion
Source: Industry Canada compilations based on data from DRI

...but other market opportunities are also available



Traditional

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Petro Refining & Related Prods	32.5	-0.9	3.2	6.2	
Crude Petroleum & Natural Gas	7.6	0.9	3.9	7.6	
Aluminum	6.0	-1.1	5.5	6.8	
Concrete & Gypsum	7.1	2.3	4.3	7.1	●

Niche

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Apparel from Pur. Material	28.0	3.6	2.9	4.8	●
Toys/Sporting Goods	8.1	6.0	4.7	5.4	●
Household Furniture	8.0	3.4	3.6	7.9	●
Plastic Materials/Resins	7.9	0.5	3.6	5.4	●
Toilet Preparations	6.3	2.8	3.4	5.8	●

Value-added Traditional

Non-Alcoholic Beverages	11.5	5.0	3.0	6.2	●
Agri/Forestry/Fish. Services	9.8	3.8	2.4	5.2	●
Soap/Cleaning Preparations	6.0	1.2	2.4	8.0	

New & Emerging

Printing & Publishing **	57.4	1.7	2.3	5.6	○
Communication Equipment	19.5	8.1	5.7	9.1	●

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

Our Presence*

● High ● Above Avg Average ○ Low

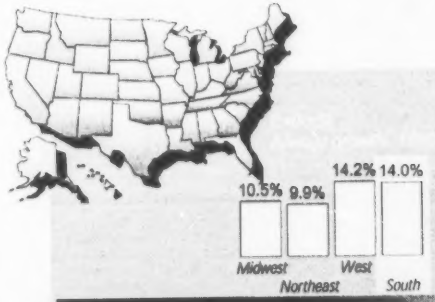
Only national info available, see slide M-17

* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

** Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

In the South, strong growth has created export opportunities...



The South is expected to experience strong market growth.

Our major exports to the South include Autos & Other Transportation Equipment, Electrical & Electronics, and Wood.

	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98	Average Annual Growth, % U.S. Output 1989-97
Top 5 exports			
Autos & Other Transportation Equip	7.9	15.1	5.8
Electrical & Electronics	4.8	11.0	7.6
Wood	3.6	15.1	6.4
Machinery	3.3	13.6	5.6
Chemicals	2.9	13.2	4.1
Next 10			
Paper	2.9	6.3	2.3
Primary Metals	2.4	5.6	4.0
Plastics & Rubber	2.3	13.9	5.4
Oil & Gas	1.8	22.0	4.4
Fabricated Metals	1.6	16.2	6.0
Furniture & Fixtures	1.2	25.7	4.1
Food	1.1	23.0	5.4
Petroleum & Coal	0.9	23.9	1.6
Primary Textiles	0.9	21.1	2.5
Non-Metallic Minerals	0.4	18.2	3.3

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

Opportunities will be abundant in the South, where a booming economy has fuelled demand for imports.

...in areas such as in aerospace...

Among high-volume exports, notable sectors include Aircraft & Aircraft Parts, Miscellaneous Machinery & Equipment, Communication & Other Electronics, and building products exports involving wood.

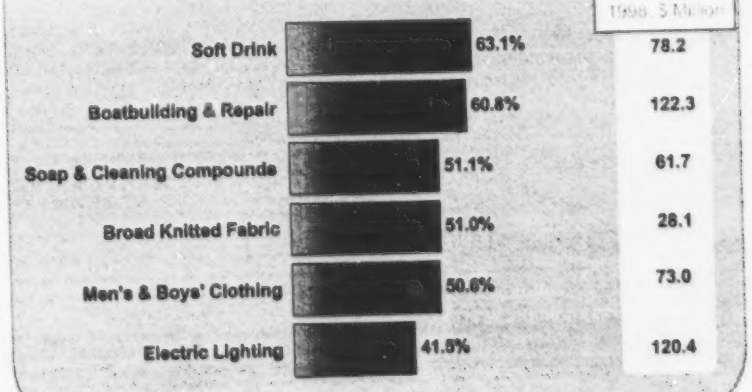
A booming economy has also supported consumer demand for emerging export sectors such as clothing, fabric, and soft drinks.

The South has been a large importer of some of Canada's high-technology exports — eg. aerospace and miscellaneous machinery.

Our exports to the South by detailed sub-activity

Top 5 export sub-activities	Exports, 1998 $ Billion	Average Annual Growth, % Exports 1989-98
Motor Vehicle Parts	4.0	12.7
Aircraft & Aircraft Parts	3.0	20.7
Misc. Machinery & Equip.	2.9	15.4
Sawmill, Planing & Shingle Mill	2.7	13.3
Communication & Other Electronics	2.4	13.1

Fastest growing export sub-activities



Source: Industry Canada compilations based on data from Statistics Canada

P-13

...and in electronic and computer equipment...

High-technology equipment growth has been strongest here. This includes the growth in demand for Electronic Components and Computers, and for Business Services.

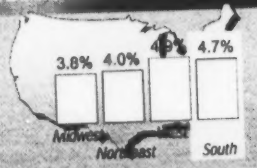
Growth in these markets is expected to remain among the fastest in the country.

The South's most knowledge-based markets will likely continue to be drivers of growth in the years ahead.

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

The South's market forecast

Annual growth, 2000-04



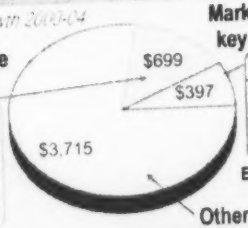
Top 5 markets (by growth)*	Demand, 1998 US$ Billion	Average Annual Growth 1989-99	Average Annual Growth Forecast 2000-04
Electronic Components	52.8	13.2	8.5
Pharmaceutical, Cleansers & Toiletries	57.2	8.4	6.8
Business & Prof. Services	506.3	8.5	6.7
Computer & Office Equip.	57.9	11.6	6.5
Aircraft & Parts	25.4	2.9	6.4
Next 5			
Primary Nonferrous Metals	**28.4**	**1.8**	**5.9**
Audio, Video & Commun. Equip.	**40.5**	**8.2**	**5.7**
Furniture & Fixtures	**23.8**	**5.9**	**5.4**
Motor Vehicles & Equip.	**140.4**	**5.8**	**4.4**
Transportation & Warehousing	**172.3**	**5.8**	**4.3**

Regional markets and forecast growth

US$ Billion, 1999 and Annual Growth 2000-04

Select high-knowledge markets:
Electronic Components
Pharmaceutical, Cleansers & Toiletries
Business & Prof. Services
Computer & Office Equip.
Aircraft & Parts

Expected Growth: 6.8%



Markets associated with key Canadian exports:
Autos & Other Transportation Equip
Wood
Machinery
Chemicals

Expected Growth: 3.9%

Other
Expected Growth: 4.4%

P-14

* Ranked by forecast growth rate from 2000-04.
Source: Industry Canada compilations based on data from DRI

...as the Southern economy reflects the rising importance of high-tech activities...

Rapid rises in the demand for semiconductors, aerospace and pharmaceuticals are among the interesting developments forecast for the South.

But with strong local suppliers, imports will meet strong competition.

Our already low presence in key growing markets may be challenged further in the days ahead. Opportunities exist — but competition will be keen.

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

The South's detailed forecast of "submarkets"

Key "submarkets"	Demand 1999 US$ Billion	Average Annual Growth: Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Motor Vehicles	100.6	5.4	4.0	5.3
Computer Process./Software	100.0	13.8	8.6	11.6
Management/Consulting	51.7	9.6	7.7	7.7
Industrial Inorganic & Organic Chemicals	46.2	2.2	2.7	4.7
Engineering & Architecture	43.6	5.4	4.5	4.8

Fastest growing "submarkets" 2000-2004

	Growth in Imports 2000-04	Demand 1999, US$ Billion	Growth in Imports 2000-04
Semiconductors	9.6%	28.7	12.9
Computer Processing & Software	8.6%	100.0	11.6
Aircraft	8.2%	14.1	7.5
Pharmaceuticals	7.8%	41.0	11.2
Management & Consulting	7.7%	51.7	7.7

Note: Submarkets of at least US$ 5 Billion
Source: Industry Canada compilations based on data from DRI

...but in the South, too, opportunities are widespread

South

Traditional

Demand 1999 US$B	Average Annual Growth Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04	Our Presence	
100.6	5.4	4.0	5.3	•	Motor Vehicles
39.5	2.0	4.7	8.0		Crude Petroleum & Natural Gas
53.4	1.1	4.1	7.1	•	Petro Refining & Related Prods
15.3	6.1	4.2	7.0	•	Concrete & Gypsum
12.2	1.7	6.7	8.0		Aluminum
5.3	3.3	3.8	6.1		Tires & Inner Tubes

Niche

Demand 1999 US$B	Average Annual Growth Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04	Our Presence	
36.6	4.7	3.8	5.8	○	Apparel from Purch. Material
11.7	2.7	4.9	6.7	•	Plastic Materials & Resins
10.6	5.0	4.6	8.9	•	Household Furniture
10.5	7.6	5.8	7.0		Toys & Sporting Goods
7.9	4.4	4.5	6.9	○	Toilet Preparations
8.9	4.6	4.4	5.7		Structural Metal/Plate Work
7.1	7.5	6.7	10.8	•	Office Furniture

Value-added Traditional

16.3	6.3	4.0	7.3	•	Non-Alcoholic Beverages
17.1	5.5	2.9	5.7	•	Agri/Forest/Fish. Svc's
13.4	4.4	3.5	5.3	•	Paperboard Containers/Boxes
8.2	2.8	3.4	9.1	•	Soap & Cleaning Preparations
6.2	4.7	2.3	4.9		Glass & Products
5.3	2.3	3.6	10.6		Sanitary Paper Products

New & Emerging

60.7	4.3	3.3	6.7	○	Printing & Publishing **
31.2	10.4	6.4	9.9	•	Communication Equipment
8.3	6.1	1.9	6.2	•	Measuring/Control Instruments

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

Our Presence*

● High ● Above Avg ◦ Average ○ Low

Only national info available, see slide M-17

* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

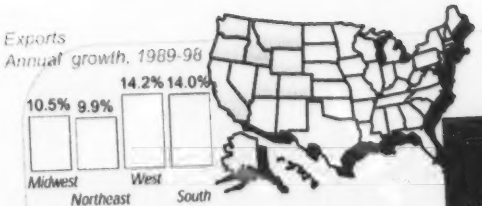
** Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

In the West...

The fast-growing Electrical & Electronic sector has emerged as a major source of Canadian exports to the West, supplementing traditional exports, such as Autos, Oil & Gas, and Wood & Paper Products.

The West has witnessed the fastest explosion in Canadian export growth in recent years, having received a traditionally smaller share of our exports.



	Exports 1998, $ Billion	Average Annual Growth, % Exports 1989-98	Average Annual Growth, % U.S. Output 1989-97
Top 5			
Autos & Other Transportation Equip	7.8	15.2	-2.3
Oil & Gas	5.5	10.0	0.1
Electrical & Electronics	4.1	22.3	10.6
Wood	3.2	12.3	-1.6
Paper	2.1	7.2	0.3
Next 10			
Agriculture & Fishing & Logging	1.7	15.2	5.7
Machinery	1.6	12.1	8.2
Food	1.6	15.2	3.3
Chemicals	1.5	16.9	6.2
Fabricated Metals	0.8	16.0	3.9
Furniture & Fixtures	0.7	25.4	3.8
Plastics & Rubber	0.6	16.6	4.9
Primary Metals	0.6	7.6	1.4
Petroleum & Coal	0.4	5.0	3.5
Clothing	0.4	29.7	5.2

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

...Oil and Autos remain among our top exports...

Exports to the West reflect the structure of the Western Canadian economy, with oil & gas exports occupying a relatively important share.

But computers are among our top 5 exports, as are aerospace exports.

Canada is showing strong and noticeable growth in many niche areas — clothing, electric lighting etc. — with exporters benefitting from improved U.S. access since 1989, and strong consumer demand in recent years.

Oil and motor vehicles are big export items.

Our exports to the West by detailed sub-activity

Top 5 export sub-activity	Exports, 1998 $ Billion	Average Annual Growth, % Exports 1989-98
Crude Oil & Natural Gas	5.5	10.0
Motor Vehicles	5.3	19.1
Office, Store & Business Machines	2.3	27.4
Aircraft & Aircraft Parts	1.8	8.7
Pulp & Paper	1.6	4.8

Fastest growing export sub-activities

		Value 1998, $ Million
Broad Knitted Fabrics	55.7%	45.3
Boatbuilding & Repair	39.6%	60.1
Electric Lighting	36.3%	66.8
Concrete Products	36.2%	28.2
Wooden Box & Pallet	34.6%	41.8

Source: Industry Canada compilations based on data from Statistics Canada

...but the West's bright future centers on high-tech markets...

The West's strong market forecast reflects growing demand for Electronic Components, Computers, Business Services and Pharmaceuticals.

Our current exports are concentrated in the low-knowledge sectors which comprise only a small share of the region's burgeoning market.

The West's future is being built on a modern infrastructure that, in addition to the type of exports we presently deliver, requires even greater amounts of higher knowledge goods and services.

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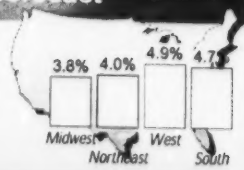
The West's market forecast

Annual growth, 2000-04



Top 5 markets (by growth)*	Demand, 1999 US$ Billion	Average Annual Growth 1989-99	Average Annual Growth Forecast 2000-04
Electronic Components	51.5	12.6	8.8
Computer & Office Equipment	40.8	10.6	7.1
Business & Prof. Services	296.0	8.0	6.9
Pharmaceutical, Cleansers & Toiletries	35.3	7.9	6.8
Primary Nonferrous Metals	13.4	1.1	5.7
Next 5			
Audio, Video & Commun. Equip.	24.3	6.8	5.6
Furniture & Fixtures	13.0	5.4	5.3
Aircraft & Parts	24.5	-0.2	4.8
Electrical Industrial Equip.	8.0	5.1	4.5
Fabricated Metal Products	40.2	4.7	4.5

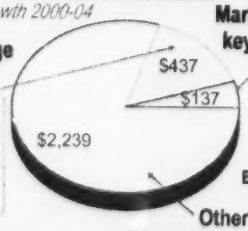
Regional markets and forecast growth

US$ Billion, 1999 and Annual Growth 2000-04

Select high-knowledge markets:

Electronic Components
Computer & Office Equip.
Business & Prof. Services
Pharmaceutical, Cleansers & Toiletries
Primary Nonferrous Metals

Expected Growth: 7.1%



Markets associated with key Canadian exports:

Autos & Parts
Oil & Gas
Wood
Paper

Expected Growth: 3.8%

Expected Growth: 4.5%

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* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

...and leading-edge equipment for a modern supereconomy...

Markets for computer software, semi-conductors and management services are expected to increase in importance.

As demand for these goods and services increases, firms will have to look beyond the U.S. suppliers, creating opportunities for Canadian and foreign industries.

Computer software and semiconductor demand is expected to pick-up considerably in the next few years.

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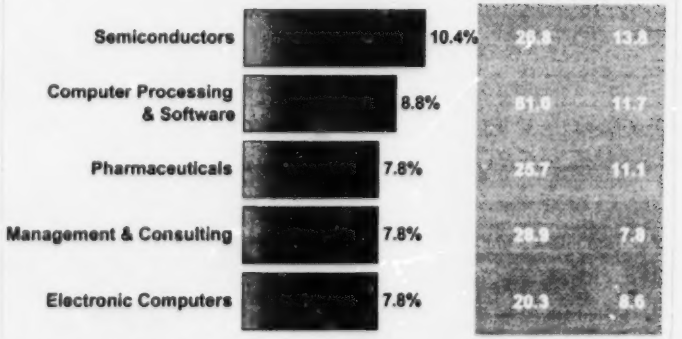
The West's detailed forecast of "submarkets"

Key "submarkets"	Demand 1999 US$ Billion	Average Annual Growth Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Computer Proc. & Software	61.0	12.8	8.8	11.7
Motor Vehicles	59.1	4.7	4.0	5.3
Trucking & Courier Services	39.5	6.6	3.0	3.7
Management & Consulting	28.9	8.6	7.8	7.8
Semiconductors	26.8	17.5	10.4	13.8

Fastest growing "submarkets" 2000-2004



Note: Submarkets of at least US$ 5 Billion
Source: Industry Canada compilations based on data from DRI

...that will lead to interesting opportunities throughout the West

Traditional

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Motor Vehicles	59.1	4.7	4.0	5.3	
Crude Petroleum & Natural Gas	8.8	0.7	5.3	8.1	
Petro Refining & Related Prods	29.2	0.6	4.2	7.2	●
Concrete & Gypsum	8.0	6.3	4.8	7.6	●
Aluminum	5.7	0.3	6.3	7.6	●

	Demand	Average Annual Growth Demand		Imports	Our Presence
	1999 US$B	1989-99	Forecast 2000-04	2000-04	
Apparel from Purch. Material	23.2	5.0	3.8	5.8	
Toys & Sporting Goods	6.7	7.3	5.7	6.4	
Household Furniture	6.7	4.6	4.6	8.9	●
Toilet Preparations	5.0	3.9	4.4	6.8	○

Value-added Traditional

Non-Alcoholic Beverages	10.0	6.3	3.9	7.1	●
Agri/Forest/Fish. Services	11.0	5.0	2.9	5.0	●
Paperboard Containers/Boxes	7.4	4.4	3.5	5.2	●

New & Emerging

Printing & Publishing **	40.8	4.6	3.3	6.7	○
Computers & Peripheral Equip	40.8	10.6	7.1	7.7	●
Communication Equipment	18.6	8.4	6.3	9.8	●

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** Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

For Further Information

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The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Analysis Directorate of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective.

The current analysis update was prepared by Marianne Blais, Julie Dubois, Joseph Macaluso, Alison McDermott, and Karen Smith, under the direction of Shane Williamson.

This quarter's feature was prepared by Gary Sawchuk from Strategic Initiatives with Nigel Marshman and Cemile Sancak from the Strategic Investment Analysis Directorate — with a lot of help from a lot of friends. Special thanks to Aaron Sydor and Ash Ahmad from Strategic Investment; Alison McDermott, Wulong Gu and Lori Whewell from the Micro-Economic Analysis Directorate; Dave Dupuis, now at Consumer Affairs and André Patry, now at International Cooperation; and Ram Acharya. Al Streuber from the Prairies and NWT Office and Mostafa Askari from the Department of Finance provided helpful comments. Presentation / data assistance was provided by Caroline Farmer and Karen Smith. Translation by Lucie Larocque. Gary Sawchuk is the General Editor of Special Features in the Micro-Economic Monitor.

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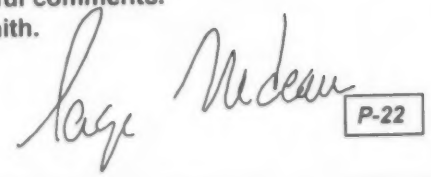

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